Federal Reserve Bank *of* Atlanta

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Webinar on Mitigating Neighborhood Blight

10/24/2017 -

Learn how experts are addressing and mitigating the impact of blight, vacancy, and abandonment in distressed communities across the country. Register for the November 2 session in this article.

Tracking Informal Mortgages on Rental Properties

10/13/2017 -

This article analyzes real estate transaction data to understand trends in multifamily informal mortgages and the market conditions in which they are likely to occur.

Center for Workforce and Economic Opportunity Launches

10/06/2017 -

The center highlights employment policies and labor market issues that affect low- and moderate-income individuals. The new center is part of the Atlanta Fed's Labor Market Initiative.

Webinar on Advancing Financial Inclusion

10/06/2017 -

How are experts helping address the challenges low-income households face? Register for the October 12 session on innovative financial products in this article.

Report on Workforce Development Needs and Opportunities

10/05/2017 -

The Fed report outlines promising strategies that can be used to unlock the potential of America's workforce. Learn more about the Investing in America's Workforce initiative in this article.

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Webinar on Mitigating Neighborhood Blight

In a number of cities across the country, neighborhood revitalization has been stymied by the impact of blight. Whether it's in the form of abandoned properties, houses in severe disrepair, or vacant homes, blight is a major cause of what's become known as the "appraisal gap"—the situation in which the cost of rehabilitating a home is greater than the home's post-construction value. The appraisal gap can hamper the recovery of a city's housing market and foster an environment for bottom-feeding investors, who build up large rental portfolios by buying up foreclosed homes that were previously owner-occupied.

During the housing crisis, the temporary Neighborhood Stabilization Program provided gap financing that enabled housing developers to build or rehab a high volume of single-family homes. But what approaches are available to help fill the gap now?

Experts will highlight two innovative programs and a policy strategy that offer working solutions to address the appraisal gap and mitigate the impact of blight, vacancy, and abandonment in distressed communities across the country.

Presenters:

- *Kim Graziani*, vice president and director of national technical assistance for the Center for Community Progress, will provide a national perspective on neighborhood blight.
- *Steve Lockwood*, executive director of Frayser Community Development Corporation in Memphis, will share an analysis showing that his organization increased home values $6 for every $1 it invested in fighting blight.
- *Krysta Pate*, program director for Detroit Home Mortgage, will discuss a new program her organization designed to address the appraisal gap in a scalable manner.
- *Matt Josephs*, senior vice president of policy for LISC (Local Initiatives Support Corporation), will describe efforts to create a federal affordable homeownership tax credit that will support the development and renovation of housing in distressed neighborhoods.

[Register] for the November 2 webinar, which takes place at 3:00 p.m. ET. Participation is free, but registration is required.

The Connecting Communities® webinar series is a Federal Reserve System initiative intended to provide a national audience with timely information on emerging and important community and economic development topics. All webinar sessions are recorded and archived on the [Connecting Communities® website]. For more information about this series, email communities@stls.frb.org. For more information on the Federal Reserve's community development work, visit FedCommunities.org.

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Tracking Informal Mortgages on Rental Properties

HOUSING NEEDS AND SUPPLY :: HOUSING POLICY

In past articles, we have discussed a number of informal homeownership issues, including land contracts or contracts for deed and heirs' property. In this piece, we look at informal multifamily lending and rental housing issues. While "informal" does not connote "undesirable," there are certain inherent risks when property is sold or financed outside of regulated, supervised markets such as the traditional mortgage market.

Hard money or informal mortgages are a type of private party lending used by rental property owners in a variety of situations. Owners of multifamily rental properties may use hard money loans for maintenance or upgrades on the properties. Hard money may also be used for property acquisition. Lenders may include family, friends, fellow investors, or private financiers. The loans may be relatively quick and easy to attain, but they are more likely to incur higher costs, including fees and interest rates. The loans may present risks for tenants if they are used to "flip" properties or overleverage property owners, placing the owners at risk of foreclosure and their tenants at risk of eviction.

In order to better understand trends in multifamily informal mortgages and the market conditions in which they are likely to occur, we analyzed real estate transaction data and compared lending activity with poverty data nationwide.

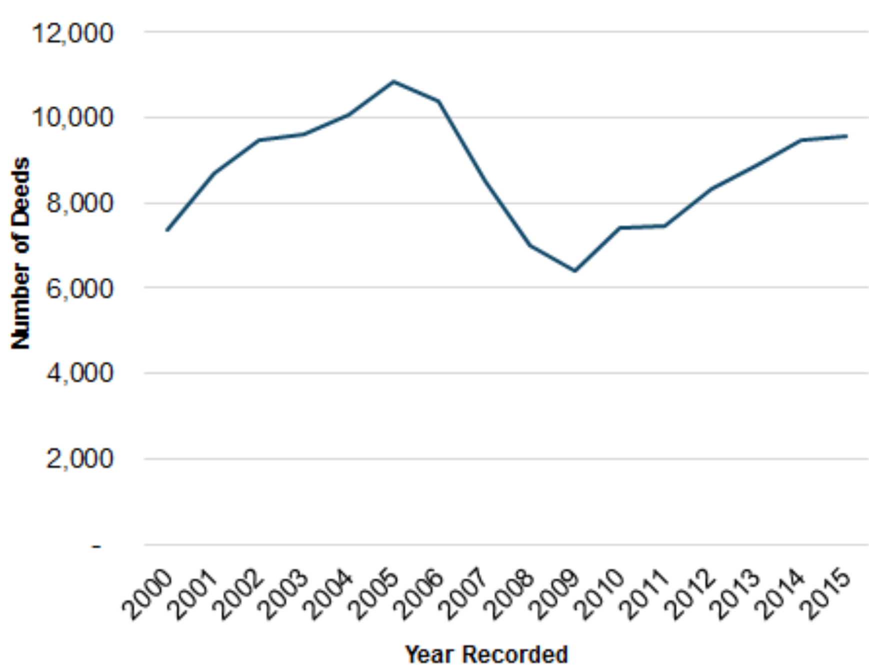
About the data
Our analysis relied on transaction data from CoreLogic to identify informal mortgages. The data set includes deeds and mortgage originations recorded at the county level by local registries or recorders of deeds. First, we identified multifamily properties using CoreLogic's property type field for apartments and other multifamily rental properties with more than four units. Duplex, triplex, and quadplexes were not included in these tabulations. To identify likely informal mortgages, we used CoreLogic's code for transactions involving a private party lender. Due to the nature of these transactions, it is quite possible that many are not reported. The following is our best approximation, given available data.

Private party lending
Overall, we found that among 3,962,984 deeds recorded, 148,318 (4 percent) involved a private party lender. Lenders were identified in the data by a first and last name (51 percent), as an unnamed "private individual" (5 percent), or as an "institutional investor" (43 percent); percents do not sum to 100 due to rounding. Of this latter group of corporations and agencies, 38,276 unique entities were reported as private party lenders with an average of 1.68 transactions per company.

A few relatively high-volume lenders existed, with eight lenders listed as the seller of more than 100 transactions. A subset of private party transactions (4 percent) were explicitly coded as "intrafamily sales." Family members are commonly the source of hard money loans. This figure likely underreports the phenomena of intrafamily lending, as coding is uneven across counties and often unreported.

The majority (94 percent) of 148,318 deeds involving a private party lender were recorded between 2000 and 2015. As shown in figure 1, the volume of private party lending varied over this time frame, with an average of 8,717 transactions per year. The annual volume ranged from a peak of 10,849 in 2005 to a low of 6,397 in 2009. In 2015, the volume was above average for this period, or 9,549 transactions.

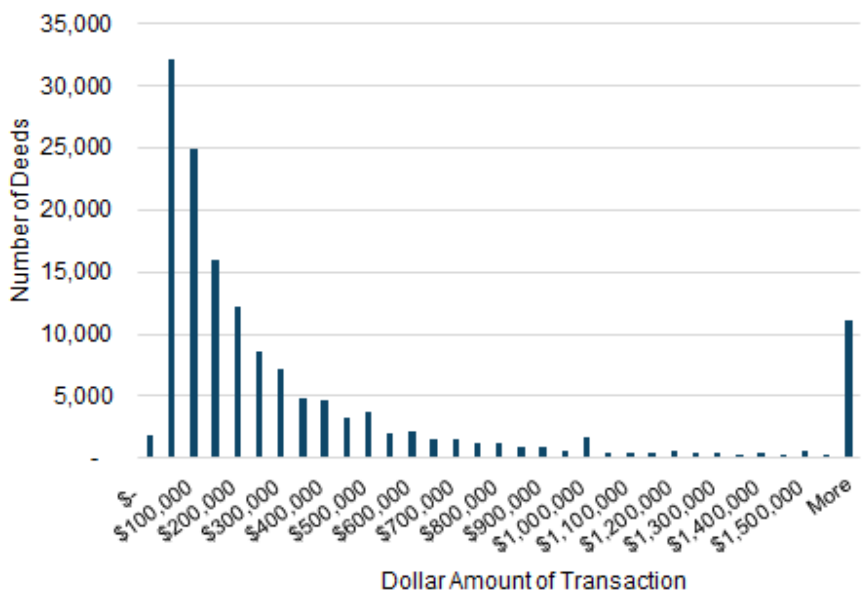
Figure 1: Volume of Multifamily Private Party Lending by Year Recorded



Source: Authors' calculations based on data provided by CoreLogic

Next, we analyzed the transaction amount. As shown in figure 2, we found that the largest share (23 percent) of these transactions were under $50,000 and the majority (50 percent) were under $150,000. However, a fairly sizable proportion (12 percent) were over $1 million. An institution or corporate entity was the lender in the majority of (73 percent) of these large-dollar transactions, a relatively high percentage compared to the percentage of corporate lenders among all private party transactions (43 percent).

Figure 2: Volume of Multifamily Private Party Lending by Transaction Amount



Source: Authors' calculations based on data provided by CoreLogic

Other aspects of the transactions also varied considerably. An interest rate was missing or zero for 86 percent of the records; however, the geographic distribution of available data was roughly similar to the full sample, with Florida somewhat overrepresented and California somewhat underrepresented. While the number of missing values requires cautious interpretation of the data, known interest rates varied between 0.5 and 70 percent. The majority (67 percent) were between 4.01 percent and 10 percent interest. The median interest rate was 7.5 percent. The loan term was also missing or zero for most records (63 percent). Terms that were recorded ranged from one to 100 years, with a median of five years.

The geography of private party transactions

Private party transaction records were geographically distributed fairly evenly, with larger volumes in high-population states, including California, Florida, and New York, and metropolitan areas, including Chicago, Los Angeles, and New York City. Within these geographies, we also sought to understand local patterns. Our underlying assumption was that private party lending would be more prevalent in submarkets where it is more difficult to secure traditional financing. Thus, we compared block group level lending with poverty data to better understand neighborhood-level trends. Overall, we found that high-poverty block groups had larger concentrations of private party lending.

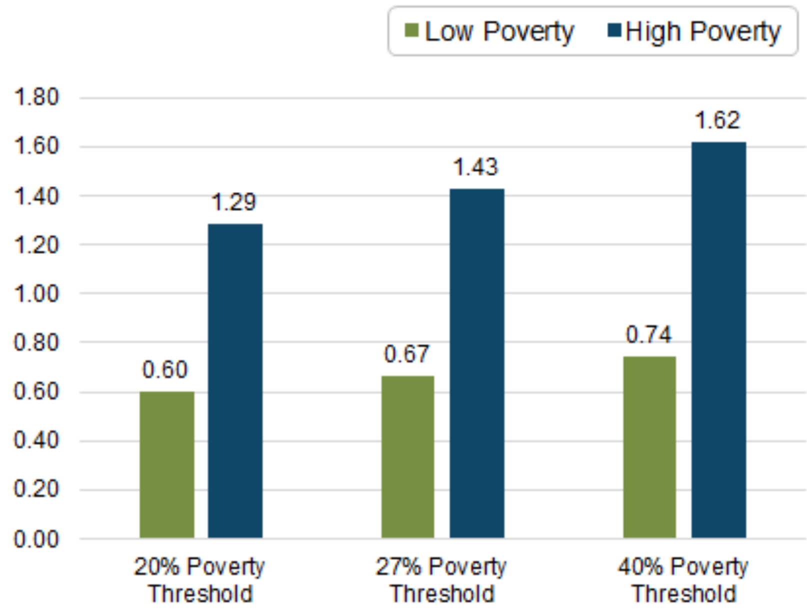
The analysis was conducted using the same CoreLogic deeds data as well as CoreLogic tax records and 2015 Census American Community Survey (ACS) five-year estimates at the block group level. Since years of available deeds data vary by county, data from before 2012 were discarded. Based on CoreLogic metadata, all counties reported data back to at least 2012. Thus, we were able to analyze 36,240 private party transactions from 2012 to 2015 out of 148,318 total records (24 percent).

In order to quantify the universe of block groups with multifamily rental properties, CoreLogic tax records were used to identify the locations of 10,686,328 multifamily rental properties with more than four units (using the same land use categories as previous analysis of deeds records). We relied on CoreLogic's block group code to place each record, although the block group variable was somewhat noisy. For instance, 4 percent of all tax records had no reported block group value, 0.1 percent were invalid values, and an unknown number of values may be incorrect. In addition, a relatively small number of records (545 or 0.01 percent) were located in block groups that are unpopulated, according to the U.S. Census. The ACS table "Poverty Status in the Past 12 Months by Household Type by Age of Householder" was used to determine the percentage of households in poverty by block group.

To compare the levels of private party lending activity by poverty rate, CoreLogic data were aggregated to the block group level. For the analysis, we eliminated block groups that had no CoreLogic multifamily rental properties as well as any invalid or unpopulated block groups found in the CoreLogic data. Using the Census figures, three poverty thresholds were used: a 20 percent threshold denoting a high-poverty neighborhood, a 40 percent threshold denoting concentrated poverty, and a midrange threshold of 27 percent poverty, selected based on results of a previous analysis conducted by Desmond and Wilmers (2017).

At all three thresholds, the difference in private party transactions per 100 multifamily properties between high- and low-poverty block groups was statistically significant at a 95 percent confidence interval ($p < 0.0001$). As shown in figure 3, at least twice as many transactions occurred in high-poverty neighborhoods versus low-poverty neighborhoods. While the average number of transactions per block group is still quite low, the differential is troubling from both a social equity standpoint as well as a risk standpoint. In addition, as previously noted, the number of transactions is almost certainly underreported, particularly in lower-resourced counties where informal mortgages are more likely to occur.

Figure 3: Average Private Party Transactions per 100 Multifamily Properties



Source: Authors' calculations based on data provided by CoreLogic and Census ACS 2015 5-year estimates

Most rental properties are financed through formal lending institutions or are purchased outright. This suggests that researchers who wish to calculate landlord expenditures can be fairly confident that public mortgage and tax records cover the vast majority of property owners' mortgage burden. However, the volume of informal mortgages on rental properties is increasing and on par with levels witnessed before the foreclosure crisis. We also found that the rate of informal mortgages in poor neighborhoods is more than double that in non-poor neighborhoods. This suggests that property owners in low-income communities may face barriers to securing conventional loans for their buildings. These owners might be undercapitalized, which could cause them to cut costs through property disinvestment or move quickly to evict tenants who fall behind on rent (Desmond 2016). More research on the financing of rental properties, particularly in high-poverty areas, is needed.

By Ann Carpenter, senior CED adviser, and Matthew Desmond, professor of sociology at Princeton University

References

Desmond, Matthew. 2016. *Evicted: Poverty and Profit in the American City.* New York: Crown.

Desmond, Matthew, and Nathan Wilmers. 2017. "Is Housing the Poor Lucrative? The Profit Margins of Urban Landlords." Working Paper: Princeton University.

Center for Workforce and Economic Opportunity Launches

During the October 4–6 Investing in America's Workforce conference in Austin, Texas, Atlanta Fed President Raphael Bostic announced the launch of the Center for Workforce and Economic Opportunity (CWEO). The center highlights employment and labor market issues faced by individuals from low- and moderate-income backgrounds that affect economic opportunity, defined in part by equality of opportunity. The degree to which people and businesses engage in the labor market drives outcomes such as socioeconomic mobility, stability, resilience, and competitiveness.

Although the center is housed within the research department at the Atlanta Fed, it will act as a resource to bridge workforce development research and practice across the entire Federal Reserve System. The center focuses on work and events related to the labor market, employment opportunities, and workforce development from all 12 Banks and the Board of Governors. Over the coming months, CWEO will post content in our *Workforce Currents* section such as articles, videos, and podcasts that synthesize recent research. The center showcases interactive data tools from across the Fed System that display up-to-date regional economic trends, including the Chicago Fed's Peer City Identification Tool, the Atlanta Fed's Wage Growth Tracker, and CWEO's own Opportunity Occupations Monitor. The monitor, created by Atlanta Fed researchers, displays low- and middle-skill jobs across metro areas that pay at least the national median salary and don't require a bachelor's degree.

The Center for Workforce and Economic Opportunity is part of the Atlanta Fed's Labor Market Initiative, which also includes the Center for Human Capital Studies. For more information about the center, or if you have questions about how it can support your work, please contact its director Stuart Andreason, research analyst II Ashley Bozarth, or Federal Reserve System affiliate contributors.

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Webinar on Advancing Financial Inclusion

According to the Aspen Institute, more than 50 million Americans live in or near financial crisis, and a growing number of individuals lack savings cushions to weather emergencies. Far too many households lack access to basic, affordable financial services and spend too much of their limited earnings on fees and interest. According to the Center for Financial Services Innovation, this amounts to some $145 billion annually.

This marketplace is encompassed largely by non-bank financial services, such as check cashers, payday lenders, and subprime loans, but it also includes mainstream banking fees like overdrafts. These fees and their negative impact are compounded by the growing number of households with volatile or unpredictable income.

Organizations across the country are developing solutions to address volatility and financial inclusion and to support households in managing cash flow and building savings, increasing credit and confidence along the way. Tune in to this free, one-hour Connecting Communities® webinar to hear from leading experts about research, current initiatives, and best practices to help address the challenges low-income households face in the financial marketplace.

Presenters:

- *Lauren Leimbach*, Community Financial Resources
- *Anne Leland Clark*, Prepare + Prosper
- *Joanna Smith-Ramani*, the Aspen Institute's Financial Security Program

Register for the October 12 webinar, which takes place at 3:00 p.m. ET. Participation is free, but registration is required.

The Connecting Communities® webinar series is a Federal Reserve System initiative intended to provide a national audience with timely information on emerging and important community and economic development topics. All webinar sessions are recorded and archived on the Connecting Communities® website. For more information about this series, email communities@stls.frb.org. For more information on the Federal Reserve's community development work, visit FedCommunities.org.

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Report on Workforce Development Needs and Opportunities

This year, the Federal Reserve System launched a new initiative, **Investing in America's Workforce: Improving Outcomes for Workers and Employers**, which seeks to reframe workforce development from the provision of social services to an important investment in our national economy. Recognizing that the United States can only reach its economic potential through strong alignment between employer needs and a skilled workforce, the Fed is leading the way through discussions with workforce leaders, philanthropy, government, and the private sector to better understand the current needs, challenges, and opportunities for America's workforce development system.

"*Investing in America's Workforce: Report on Workforce Development Needs and Opportunities*" shares insights from focus groups with leaders from around the country on what is needed to improve workforce outcomes and investments. Areas for investment include supporting workforce intermediaries, strengthening early childhood education, and increasing job access and job quality.

In addition, the report outlines ideas to make workforce development more investable:

- Classify workers as assets instead of expenses
- Offer financial products that allow organizations to increase capacity and scale
- Use outcomes-based funding models
- Direct philanthropic capital to promote innovation, collaboration, and capacity building.

Read the report to learn more about what strategies and investment opportunities can be used to unlock the potential of America's workforce.

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