Community Affairs Officer's note - Issue 2, 2003

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Progress in our core urban neighborhoods

This edition of *Community Dividend* is a goodbye of sorts. I am pleased to announce that, effective in 2004, Community Affairs Manager Jacqueline Nicholas will become Community Affairs Officer (CAO) for the Federal Reserve Bank of Minneapolis. Her promotion to assistant vice president and CAO is recognition of the experience, dedication and enthusiasm she brings to our team. As vice president over Community Affairs, my own involvement in the Minneapolis Fed's community development initiatives and research will continue, but in a less visible way.

This issue's cover story focuses on a cause for optimism in our work: The 1990s saw dramatic drops in poverty rates and concentrations in the Twin Cities, and evidence supports the idea that the Midwest's broad-based economic growth was a key force behind the decreases. By implication, the Federal Reserve System's core mission—maintaining a monetary policy that supports long-term growth in incomes—provides a necessary foundation for poverty reduction and neighborhood improvement. Metropolitan and local governments, community and economic development organizations, and ordinary citizens build upon that foundation by strengthening local institutions that facilitate full participation in the economy by all members of the community. Although many hardships persist and much remains to be done, the progress against concentrated poverty in the 1990s gives hope that if the economic foundations and institutional support structures are in place, the future of America's urban areas can be bright.

Additional features in this issue discuss income and poverty trends on Ninth District reservations, an innovative loan guarantee program for Native Americans and amendments to the Equal Credit Opportunity Act. The topics are diverse, but they all reveal additional aspects of the economic and institutional supports for community economic development.

FEDERAL RESERVE BANK OF MINNEAPOLIS

A better day in the neighborhood: The rise and decline of poverty concentration in the Twin Cities, 1970-2000

After increasing for two decades, the concentration of poverty in Minneapolis-St. Paul took a dramatic, unexpected plunge in the 1990s

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The percentage of individuals nationwide whose family income falls below the federal government's official poverty level varied only slightly between 1970 and 2000, according to the U.S. Census Bureau. Over the same period, the spatial concentration of poverty—the percentage of low-income individuals who live in low-income neighborhoods—was much more volatile. From 1970 to 1990, this and related measures of the concentration of poverty rose sharply across the nation—particularly in the Midwest, including Minneapolis-St. Paul.

Poverty's prolonged, pervasive tendency to concentrate, mostly in inner-city neighborhoods, led to gloom about the future, typified by poverty expert Paul Jargowsky's assessment that "Social conditions in high-poverty neighborhoods have deteriorated, fueling more abandonment in a cycle of decay that, with few exceptions, seems immune to policy interventions or private initiatives." 1/ Then, in the 1990s, poverty concentration unexpectedly fell, with especially steep declines in the Twin Cities and other Midwestern metropolitan areas.

The combination of a rapid decline in concentrated poverty with only a modest decline in the national poverty rate may seem to suggest that the deconcentration resulted mainly from the relocation of poor and nonpoor households. Indeed, relocating poor households out of high-poverty neighborhoods (HPN) was a goal of housing policy in the 1990s. In pursuit of that goal, many high-density public housing projects were torn down, including some in Minneapolis.

However, a closer look at the evidence suggests that a reduction in poverty, not just increased mixing of existing poor and nonpoor households, was an important cause of poverty deconcentration, at least in the Twin Cities and much of the Midwest. In the 1990s, these areas experienced strong growth in earned income and a sharp decline in the percentage of individuals in poverty. In the Midwest and Twin Cities, these positive economic developments benefited populations that are overrepresented among the poor and the concentrated poor. For example, poverty rates in Minneapolis-St. Paul fell sharply for most racial minorities and for children and adults living in single-parent households.

This article explains the concept of poverty concentration and summarizes its national and regional trends since 1970, including the 1990s reversal. Those facts then serve as background for a tentative discussion of some of the factors associated with poverty deconcentration in the Twin Cities and other regions.

Defining and measuring poverty concentration

Poverty concentration relates to whether low-income households are dispersed throughout the population or clustered together in areas where poverty is common. Some clustering is likely to occur simply because the cost of housing differs by neighborhood, and people with low incomes will gravitate to neighborhoods where housing costs less. Other factors, such as the advantages that low-income immigrants may find in living near each other, can give rise to neighborhoods with a high rate of poverty. To assess how all these factors affect the spatial intermingling of low-income and other households, researchers have developed precise definitions and measurements of poverty concentration.

Any definition begins with a definition of poverty itself. This article uses the federal government's official definition of poverty. Since the 1960s, the government has established annual poverty thresholds intended to represent the cost of basic needs for families of various sizes. In 1999, the year for which Census 2000 measures income, the poverty threshold was $13,290 for a typical family of three and $17,029 for a typical family of four. The government defines an individual as poor, or in poverty, if his or her household income is below the threshold for households of the same size. This definition of poverty has many faults, 2/ but it is widely used and has the advantage that the U.S. Census Bureau enumerates households in poverty for each census tract.

Measuring concentration also requires that we define the neighborhoods, or spatial areas, in which concentration will be measured. Census tracts, as defined by the U.S. Census Bureau, are the most convenient and widely used concept of neighborhood in the study of poverty concentration. According to the bureau, "census tracts in the United States ... generally have between 1,500 and 8,000 people, with an optimum size of 4,000 people. ... When first delineated, census tracts are designed to be relatively homogeneous with respect to population characteristics, economic status, and living conditions." 3/ I will use the terms "neighborhood" and "census tract" interchangeably. 4/

The poverty rate—the percentage of residents living in poverty—varies widely among neighborhoods. Field work and data analysis suggest that the character of a neighborhood changes significantly as the poverty rate rises above a threshold of about 30 to 40 percent. Above that level, outsiders are more likely to perceive the neighborhood as poor and unattractive. These neighborhoods often have a high proportion of vacant or rundown buildings and a dearth of neighborhood shops and businesses. Often, among their residents, rates of unemployment and single parenthood are above average, while rates of educational and vocational attainment are low. 5/ I will define an HPN as one in which 40 percent or more of the residents live in poverty. 6/

HPNs are the basis for various measurements of the concentration and spatial arrangement of poverty. One measurement is the number of such neighborhoods, nationally or in a region or city. This number reflects the spatial "footprint" or extent of HPNs. A second measurement is the percentage of people, poor and nonpoor, living in such neighborhoods, which indicates the fraction of the total area population that is exposed to the negative effects often associated with HPNs. (For more information on these negative effects, see the sidebar.) A third measurement, the concentration of poverty,is defined as "the percentage of the poor in some city or region that resides in high-poverty neighborhoods ... [It] captures the percentage of the poor individuals who not only must cope with their own low incomes, but also with the economic and social effects of the poverty that surrounds them." 7/ Looking at these three measurements of the prevalence of HPNs provides a broad assessment of these neighborhoods' extent and significance.

1970-1990: Increasing concentration of poverty

From 1970 to 1990, all three indicators rose sharply. Paul Jargowsky analyzed these trends using a fixed set of 239 metropolitan areas for which data are available from 1970 on. 8/ His data, selectively reproduced in Table 1, show that the number of HPNs in these areas more than doubled from 1970 to 1990. Over the same period, the number of all people living in HPNs increased by over 90 percent, the number of poor persons living in HPNs essentially doubled and the concentration of poverty in these metropolitan areas—the percentage of the poor living in HPNs—jumped from 12.4 to 17.9 percent. Meanwhile, the total numbers of people, poor people, and neighborhoods in these metropolitan areas each grew much more slowly, by roughly a third, and the overall metropolitan poverty rate—the percentage of all people in those 239 metropolitan areas living in households with incomes below the poverty level —increased only moderately, from 10.9 to 11.8 percent.

Within major racial and ethnic groups in the metropolitan areas Jargowsky studied, exposure to HPNs increased significantly from 1970 to 1990 (see Table 1). The increases were not a direct reflection of poverty rates, for Table 1 shows that from 1970 to 1990, metropolitan poverty rates for all persons, African Americans and Hispanics were relatively stable.

The group Jargowsky labels "white" actually includes all non-Hispanic non-African American individuals in many of his tables, due to limitations in the data on race and ethnicity in the 1970 census. 9/ From here on, the label "whites/others" refers to this group, and "white" refers solely to non-Hispanic whites. For metropolitan whites/others, population growth from 1970 to 1990 was slow (18 percent), but HPN residency and poverty concentration rose rapidly from initially low levels. The number of metropolitan whites/others living in HPNs nearly doubled (up 90 percent), and their concentration of poverty—the percentage of poor individuals living in HPNs—more than doubled, to 6.3 percent.

For metropolitan African Americans, overall population growth was rapid (41 percent). The increases in HPN residency and poverty concentration were somewhat less steep than for metropolitan whites/others, but from a much higher initial level. The number of individuals living in HPNs grew rapidly, by 70 percent, but the percentage living in HPNs rose more moderately, from 14.4 to 17.4. African American poverty concentration rose from 26.1 percent in 1970 to 33.5 percent in 1990.

The number of metropolitan Hispanics grew rapidly, but there was relatively little change in their rates of HPN residency and poverty concentration. Their overall metropolitan population rose 148 percent between 1970 and 1990, contributing to a 171 percent increase in the number of Hispanics living in HPNs. But the percentage of all metropolitan Hispanics who lived in HPNs rose moderately, from 9.6 in 1970 to 10.5 in 1990, while the percentage of the Hispanic poor living in HPNs fell slightly to 22.1 in 1990.

The incidence of HPNs showed divergent regional patterns between 1970 and 1990. The number of HPNs in the metropolitan areas Jargowsky studied grew relatively slowly in the South and West, from 798 to 1,255, a 57 percent increase. In other parts of the country, such as New England, the Mid-Atlantic and the Midwest, the number of HPNs nearly tripled, from 379 to 1,471. The spread of HPNs was especially rapid in old industrial cities in Wisconsin, Illinois, Indiana, Michigan and Ohio. 10/

The Ninth Federal Reserve District's Twin Cities metropolitan area was also sharply affected, as Table 1 indicates. 11/ The number of HPNs in the Twin Cities more than quadrupled, from just 7 in 1970 to 33 in 1990. The total population of Twin Cities HPNs increased almost sevenfold. In 1990, about 57,000 of the 79,000 HPN residents were whites/others (up over sixfold from 1970) 12/ and more than 19,000 were African Americans (up almost ninefold from 1970). The Hispanic population of these HPNs rose rapidly from 1970 to 1990 but remained small.

The percentage of people living in HPNs also increased rapidly in the Twin Cities between 1970 and 1990 (see Table 1). For all whites/others, this percentage doubled, from 1 to 2, and for poor whites/others, the percentage nearly quadrupled, from 4 to 15. For African Americans overall, the percentage living in HPNs rose even faster and from a higher initial level than for all whites/others, from 7 to 22. For the African American poor, the rate of change was less dramatic, but the level was again high. Thirty-three percent lived in HPNs in 1990, up from 21 percent in 1970. Twin Cities Hispanics experienced sharp increases in the extent of concentrated poverty, albeit from low/moderate levels in 1970. By 1990, therefore, measures of the extent of concentrated poverty were up sharply in the Twin Cities. The odds of living in an HPN were highest for Twin Cities African Americans, especially those in poverty.

Figure 1 shows the location of the Twin Cities' HPNs in 1990. They fell into four main clusters: North Minneapolis, South Minneapolis, downtown Minneapolis/University of Minnesota, and inner-city St. Paul. Inclusion of the University of Minnesota neighborhoods east and northeast of downtown Minneapolis reflects a large population of off-campus students and some public housing units. The North Minneapolis cluster lies northwest of downtown and centers around an HPN that had a high concentration of public housing units in 1990.

1990-2000: An unexpected reversal

In the 1990s, the national trend toward an increasing concentration of poverty unexpectedly and decisively reversed. Similar reversals occurred in many Midwestern metropolitan areas, including Minneapolis-St. Paul (see Table 2).

During a decade in which the number of Americans living in poverty rose by over 2 million and the percentage of U.S. households living in poverty declined only moderately, from 13.1 to 12.4, Jargowsky highlights the following features of the decline in poverty concentration nationally.

- The number of HPNs declined by more than a fourth.
- The number of people living in HPNs declined by 24 percent, or over 2.4 million.
- The number of poor people living in HPNs declined by 27 percent, from 4.8 million to 3.5 million.
- The concentration of poverty—the percentage of the poor living in HPNs—"declined among all racial and ethnic groups, especially African Americans" 13/ (see Table 2).

Table 2 documents a dramatic decline in the extent of concentrated poverty in the Midwest in the 1990s. After experiencing the steepest increase in HPNs in the 1970s and 1980s, the Midwest's HPN numbers plunged in the 1990s, resulting in a 46 percent decline in the region's number of HPNs, number of HPN residents and concentration of poverty. Midwestern cities ranked among the national leaders in decreasing the number of people living in HPNs. Detroit experienced the largest decrease in the country, followed by Chicago and, in fifth place, Milwaukee-Waukesha. The poverty concentration also decreased significantly in the South (by 41 percent,) but fell much less in the Northeast and not at all in the West.

The nationwide turnaround in poverty concentration in the 1990s was largely unexpected. Although Jargowsky stresses that poverty concentrations fluctuate in individual cities over time, largely in response to regional economic conditions, 14/ the overall trend toward increasing concentration had been clear and accelerating. The extent of the decline in poverty concentration plainly surprised him. At a Brookings Institution forum in the spring of 2003, he commented that his first reaction to some of the Census 2000 data was disbelief. 15/ According to poverty researchers G. Thomas Kingsley and Kathryn L.S. Pettit, "Against the overwhelmingly negative mindset that long dominated America's thinking about cities, [the] story is astonishing ... No writer of a decade ago even hinted at so dramatic a reversal in the concentration of poverty by the end of the century." 16/

Although the pessimistic mindset regarding poverty concentration trends affected expectations in the Twin Cities, too, 17/ the area ended up playing a leading role in the story of deconcentration (see Table 2). From 1990 to 2000, the number of HPNs in the Twin Cities fell from 33 to 15, and the number of HPN residents fell by 32,000, the 14th-largest decline in numbers among all metropolitan areas. The overall percentage of poor people living in HPNs in the Twin Cities fell from 17.3 in 1990 to 8.6 in 2000. Among the 20 largest metropolitan areas in the U.S., this 8.7 percentage-point drop was the fifth-largest decline in poverty concentration, behind Detroit, Chicago, Baltimore and Houston.

As Tables 2 and 3 indicate, poverty concentration in the Twin Cities also fell sharply among groups traditionally overrepresented in HPNs. Within the African American population, the concentration of poverty fell by more than 20 percentage points. This was the second-largest decline in African American poverty concentration among the 20 largest cities, behind only Detroit. The concentration of poverty within the Twin Cities Hispanic population dropped 12.3 percentage points, also the second-largest such decline (behind only Detroit) among the 20 largest cities. From 1990 to 2000, poverty concentration fell from 40.1 to 12.7 percent among the Twin Cities American Indian community and from 50.3 to 18.8 percent among the Asian American community. From the perspective of family composition, poverty concentration among members of single-parent households also plunged, from 16.7 percent in 1990 to 7.2 percent in 2000.

Figure 2 shows the location of the Twin Cities' HPNs in 2000. Most areas show a clear net decline in HPN numbers in the 1990s. There is little change in downtown Minneapolis and the adjacent University of Minnesota area, which includes many low-income students. However, in South Minneapolis (defined here as the area south of Interstate 94, which runs east-west through the Twin Cities), the number of HPNs dropped from 10 to 2. In St. Paul, three neighborhoods were HPNs in both 1990 and 2000, but the extreme poverty rates (above 60 percent) that prevailed in two of them in 1990 had been eliminated by 2000. Six other St. Paul neighborhoods saw their poverty rates drop below 40 percent in the 1990s, removing them from the HPN category.

In North Minneapolis, there are four HPNs in 2000, compared to seven in 1990. This is probably related to both the changes in some census tract boundaries and the demolition of numerous public housing units in the area in the 1990s. The data also show a decline from the extreme levels of poverty concentration that formerly prevailed in North Minneapolis. In 1990, the poverty rate exceeded 65 percent on two north side census tracts, with a peak of 76.5 percent in a tract of 2,700 residents. In 2000, by contrast, no north side census tract had a poverty rate greater than 50 percent.

Is poverty deconcentration good or bad?

As our cover story indicates, the concentration of poverty increased significantly from 1970 to 1990 and then declined sharply in the 1990s. What can be said about the significance of the recent decline? On the one hand, there is general agreement that concentration beyond some threshold has a disproportionately negative effect on certain aspects of the character of a neighborhood and the experiences of its residents. On the other hand, concentration of poverty in itself is neither all good nor all bad. That is, it is ambiguous as an indicator of overall social welfare.

Drawing upon a rich research tradition, William Julius Wilson's 1987 book *The Truly Disadvantaged*refocused attention on high-poverty neighborhoods (HPN) and the special burdens that they impose on their residents. Subsequent research has identified problems that seem to ramify in HPNs, such as low-quality public services (notably schools), limited exposure to economically successful role models, peer pressure to engage in income-reducing behaviors (drug abuse, school leaving), limited networks for personal advancement, exposure to crime and violence and physical distance to jobs and other opportunities. 1/ Edward Goetz of the University of Minnesota summarizes much current thinking when he notes that extreme concentrations of poverty are associated with "a range of social problems whose whole is greater than the sum of its parts. For example, school delinquency, school dropout, teenage pregnancy, out-of-wedlock childbirth, violent crime and drug abuse rates are all greater in these communities than would be predicted by a linear extrapolation of poverty effects." 2/ The result, notes researcher Paul Jargowsky, is that in HPNs, "the quality of life for their residents is often dreadful." 3/

But, just as often, it may not be dreadful, as indicated by many residents' preference to remain in their HPNs even when given an opportunity or mandate to get out. 4/ This is just one reason why measures of the concentration of poverty should not be thought of as indicators of social welfare. There may be advantages or disadvantages, for residents and nonresidents alike, in having many low-income households in close proximity within an HPN.

Advantages for residents might include affordable housing, access to concentrated public services (buses, clinics, etc.), proximity to neighbors with shared backgrounds (e.g., low-income immigrants or racial or ethnic minorities) or similar needs for mutual help arrangements and personal or cultural ties to the neighborhood and its institutions (e.g., churches). For nonresidents, the perceived advantages of concentrating the poor in HPNs may be as simple as a desire to live apart from them or the social problems their poverty might bring along. 5/

Suffice it to say that nonvoluntary programs to deconcentrate poverty are often controversial, both in HPNS and more affluent neighborhoods. Programs to promote voluntary mobility or in-place poverty reduction are, for many, more attractive alternatives.

1/ Edward Goetz, *Clearing the Way: Deconcentrating the Poor in Urban America*, The Urban Institute Press, 2003, p. 3.

2/ Ibid., p. 26–29.

3/ Paul Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City, Russell Sage Foundation*, 1997, p. 5.

4/ Goetz.

5/ George Galster, “An Economic Efficiency Analysis of Deconcentrating Poverty Populations,” *Journal of Housing Economics 11*, p. 303–329.

Causes of the reversal

During recent decades, the spatial concentration of poverty in the U.S. has fluctuated much more dramatically than the national poverty rate. In the 1970s and 1980s, the poverty rate changed little, and the concentration of poverty soared. In the 1990s, the poverty rate again changed little, and the concentration of poverty plunged. This might seem to suggest that the concentration of poverty changes mainly through the relocation of people, and not through changes in the number or percentage of individuals who are poor. Nonetheless, much of the 1990s evidence, at least in the Twin Cities and Midwest, is consistent with Jargowsky's earlier conclusion that broad economic factors leading to income growth and poverty reduction are very important in explaining changes in poverty concentration. 18/

Relocation probably played a role in deconcentrating poverty. The cross-neighborhood relocation of individual poor and nonpoor households, mostly but not always voluntarily, contributed to the deconcentration of poverty. For example, throughout the 1990s, low-income housing programs were modified specifically to decrease the spatial concentration of the poor. 19/ The federal government's Hope VI program provided funding to tear down many high-density public housing projects across the country and help former residents move to new neighborhoods. For low-income individuals not living in public housing, assistance shifted toward vouchers that either allowed a wider choice of rental locations than before or even required recipients to rent outside HPNs.

These changes in housing policy helped deconcentrate poverty to some degree. The demolition of high-density public housing projects and their replacement with lower-density, mixed-income housing dispersed low-income individuals and changed the poverty level in some neighborhoods from extreme to high or moderate. For example, in the Minneapolis-St. Paul area, public housing units in an extreme poverty neighborhood were eliminated, vouchers helped some low-income residents seek housing outside of HPNs and tax breaks subsidized the construction of affordable housing units in non-HPNs.

However, there are reasons to doubt that poverty deconcentration in the 1990s can be explained mainly by changes in housing policy. Housing experts observed that the limited political support for funding and implementing the changes, combined with many people's limited willingness to move very far from their familiar neighborhoods, would also limit the aggregate impact of the policy changes on concentrated poverty. 20/ In addition, tight rental markets in the late 1990s limited voucher recipients' ability to find units in many higher-income neighborhoods. Furthermore, housing policies change across the nation, but poverty deconcentrated much more in some regions than others. And within the Twin Cities, the numbers of HPNs declined as much or more in areas without large-scale demolition of public housing as they did in North Minneapolis, where many public housing units were torn down.

If housing policy does not account for the magnitude and spatial pattern of poverty deconcentration, could other relocation factors be at work? Jargowsky found that the factors behind racial and socioeconomic segregation in a metropolitan area affect its concentration of poverty. 21/ Thus, changes in these factors—such as exclusionary zoning in affluent suburbs or the relative availability and quality of public services outside inner cities—could lead to increased mixing of low-income and more affluent households and thus a deconcentration of poverty without a reduction in the poverty rate. No comprehensive analysis of how these factors changed during the 1990s seems to be available yet. The relevant anecdotal evidence is mixed at best 22/ and appears to provide no more than limited support for a decrease in segregation factors as a significant explanation of the deconcentration of poverty.

Relocation within metropolitan areas is not the only possible answer to the question of how the national concentration of poverty could decrease while the national poverty rate remained stable. Depending on where they settled, the many low-income immigrants who arrived in the 1990s might be part of a different explanation. For example, the large number of Hispanic immigrants, the rising proportion of Hispanics among the poor in the U.S. (17 percent in 1990 versus 23 percent in 2000), and the growing presence of Hispanics in areas with relatively few HPNs in 1990 (e.g., the West, rural small towns) could help explain the situation. By this logic, a stable poverty rate could result if a large influx of poor immigrants into non-HPNs offset a significant decline in poverty among residents of current or former HPNs. However, the relationship between immigration and poverty concentration in the 1990s has not yet been fully investigated.

Broader forces leading to income growth and poverty reduction were probably important, at least in the Twin Cities and Midwest. Jargowsky's extensive data analysis and literature review on the causes of concentrated poverty stress metropolitan area forces, especially an area's "overall level of income and the inequality in its income distribution." 23/ Jargowsky also stressed that these factors differed significantly among metropolitan areas. This points toward a consideration of regional economic forces.

From a regional perspective, changes in the concentration of poverty and the poverty rate in the 1990s seem to fall in line with each other. In the Midwest and South, where concentrated poverty declined the most in the 1990s, income per household grew faster in the 1990s than in the West and, especially, the Northeast (see Table 2). Partly as a result, poverty rates in the Midwest and South fell by almost 2 percentage points in the 1990s but rose in the West and Northeast. In the Midwest, the number of people living in poverty declined by 611,000, or almost 9 percent. Thus, although housing policy changes affected the whole nation, poverty concentration fell sharply only in the regions where incomes grew fastest and poverty fell (Table 2).

The Twin Cities followed the Midwestern pattern in the 1990s. Median household income in the Twin Cities grew by almost 18 percent between the 1990 census and Census 2000, above average within the Midwest region. Poverty did not just move around in the Twin Cities; it declined, and more rapidly than in the nation as a whole. The number and percentage of poor people living in the core cities (Minneapolis and St. Paul) fell, and the percentage of metropolitan area residents living in poverty dropped from 8.1 to 6.7. Poverty rates among area minority and single-parent households remain above average, but fell sharply between 1990 and 2000 in most cases, as shown in Table 3. (The main exception was in the Twin Cities' rapidly growing Hispanic population, where the poverty rate decreased only slightly.) These declining poverty rates help explain why the number of HPNs in the Twin Cities area fell from 33 in 1990 to 15 in 2000. That, in turn, helps explain why the number of HPN residents fell by 40 percent and why poverty concentration was cut in half.

Looking ahead

From 1970 to 1990, the increasing concentration of low-income households in HPNs was often seen as an unstoppable source of growing social burdens for poor families and inner cities. Midwestern cities experienced some of the highest levels of and rapid increases in poverty concentration, and the Twin Cities were not immune. Then, in the 1990s, the concentration of poverty unexpectedly declined in much of the Midwest and nation. A decade of income growth that reached low-income households is probably responsible for much of the reversal in those regions, with housing policies aimed at deconcentration playing a supporting role.

Although the statistics on Twin Cities poverty and poverty concentration in the 1990s were surprisingly positive, many challenges remain. Poverty rates remain high in some Twin Cities neighborhoods and probably increased somewhat during the recent recession and ensuing period of slow employment growth. Poverty concentration may have risen since 2000 as well, and research on whether its decline in the 1990s yielded concomitant reductions in social ills is still at an early stage. Looking ahead, low-income individuals continue to face impediments to housing mobility, such as restrictive zoning that limits the supply of low-cost housing in many jurisdictions, public transit systems with limited service outside inner cities and the reluctance of some landlords to accept Section 8 rental vouchers. Additional reductions in poverty and enhancements in residential choice for low-income households will depend on robust economic growth and effective income, housing and land-use policies and policy implementation. These, in turn, can benefit from further inquiries into the causes and consequences of poverty, in the tradition of William Julius Wilson's *The Truly Disadvantaged*.

Research assistance for this article was provided by Jovana Trkulja and Michael Grover. The poverty-rate maps were prepared by Laura Smith.

1/ Paul Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City*, Russell Sage Foundation, 1997, p. 3.

2/ Jargowsky, 1997, p. 21–22; Patricia Ruggles, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy*, Urban Institute Press, 1990.

3/ U.S. Census 2000, Appendix A.

4/ I use data from Jargowsky, *Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s*, The Living Cities Census Series, The Brookings Institution, May 2003. Jargowsky uses contemporaneous tracts for each census, rather than a fixed set of tracts. Although researchers G. Thomas Kingsley and Kathryn L.S. Pettit advocate and use the alternative of fixed tracts, plus other modifications of Jargowsky's methods, they reach essentially the same conclusions about concentration of poverty in the U.S. from 1970 to 2000 in "Concentrated Poverty: A Change in Course," *Neighborhood Change in Urban America, No. 2*, The Urban Institute, May 2003. This suggests that the facts summarized here may not be too sensitive to details of the definitions and measurements used.

5/ Jargowsky, 1997, p. 11.

6/ The 40 percent definition is taken from Jargowsky, 1997. However, Kingsley and Pettit find results similar to those presented here using a 30 percent threshold.

7/ Jargowsky, 2003, p. 3.

8/ Jargowsky's analysis appears in chapter 2 of his 1997 book. He leaves out areas that were not officially declared metropolitan areas until after 1970. The omitted metropolitan areas are relatively small (totaling less than 10 percent of the metropolitan population in 1990) and "excluding them has little impact on the aggregate national figures" (p. 33).

9/ Jargowsky, 1997, p. 31–32.

10/ Ibid., p. 44–45.

11/ The rising concentration of poverty in the Twin Cities was highlighted by the Metropolitan Council's *Trouble at the Core* study, authored by Mike Munson (1992).

12/ Jargowsky's method of estimating the whites/others population—subtracting the African American and Hispanic population from the total population to maintain comparability with limited 1970 data—should be kept in mind, given the rapid growth in the Asian American—and, especially, the Hmong—population in the Twin Cities between 1970 and 1990. The Hmong population had a high rate of poverty during this period and was concentrated in low-income, inner-city neighborhoods.

13/ Jargowsky, 2003, p. 1.

14/ Jargowsky, 1997.

15/ Jargowsky appeared at a May 19, 2003, forum titled "Stunning Progress, Hidden Problems: Declines in Concentrated Poverty in the 1990s," sponsored by the Brookings Institution and Living Cities: The National Community Development Initiative.

16/ Kingsley and Pettit, p. 10.

17/ See the cautionary words from the president of the Minneapolis NAACP, quoted in Edward G. Goetz, *Clearing the Way: Deconcentrating the Poor in Urban America*, The Urban Institute Press, 2003, p. 1.

18/ Jargowsky, 1997, p. 145–183.

19/ Goetz, Chapter 3.

20/ Goetz, p. 10.

21/ Jargowsky, 1997, Chapter 6.

22/ Goetz.

23/ Jargowsky, 1997, p. 145.

Table 1: Population and Poverty Measures for Selected Metropolitan Areas, 1970 and 1990

	Paul Jargowsky's Metropolitan Areas			Minneapolis-St. Paul		
	1970	1990	% Change	1970	1990	% Change
Number of HPNs†						
	1,177	2,726	132	7	33	371
Population of HPNs (thousands)						
Total	4,149	7,973	92	11.4	79.0	591
White/Other	972	1,843	90	9.1	57.1	530
African American	2,447	4,152	70	2.2	19.3	786
Hispanic	729	1,978	171	0.2	2.7	1,288
Total Living in Poverty	1,891	3,745	98	5.1	35.2	587
Share of Population Living in HPNs (%)						

Total	3.0	4.5	50	1	3	410
White/Other	0.8	1.4	75	1	2	100
African American	14.4	17.4	21	7	22	214
Hispanic	9.6	10.5	9	1	8	700
Concentration of Poverty (%)						
Total	12.4	17.9	44	4	18	318
White/Other	2.9	6.3	117	4	15	275
African American	26.1	33.5	28	21	33	57
Hispanic	23.6	22.1	-6	6	18	200
Poverty Rate (%)						
Total	10.9	11.8	8	6.7	8.1	21
White/Other	7.7	7.5	-3	6.3	6.8	8
White	NA*	NA	NA	NA	5.9	NA
African American	28.1	26.4	-6	24.3	37.0	52
Hispanic	21.4	23.9	12	10.1	19.0	88
American Indian	NA	NA	NA	NA	39.7	NA
Asian American	NA	NA	NA	NA	31.9	NA

†High-poverty neighborhoods.
*Not available.

Source: Paul Jargowsky, Poverty and Place: Ghettos, Barrios, and the American City, *Russell Sage Foundation, 1997; except for "Poverty Rate (%)," "Share of Population Living in HPNs (%)" and "Concentration of Poverty (%)," which were calculated by the Federal Reserve Bank of Minneapolis from U.S. Census Bureau data.*

Table 2: Population, Poverty, and Income Measures for Selected Areas, 1990 and 2000

	Number of HPNs†			Population of HPNs (Thousands)			Poverty Rate (%)		
	1990	2000	% Change	1990	2000	% Change	1990	2000	% Change
U.S.	3,417	2,510	-26.5	10,394	7,946	-23.5	13.1	12.4	-5.3
Midwest	982	566	-42.4	2,526	1,374	-45.6	12.0	10.2	-15.0
Selected MSAs*									
Detroit	150	53	-64.7	421	108	-74.4	11.3	10.5	-7.1
Chicago	187	114	-39.0	413	235	-43.1	12.8	10.6	-17.2
Milwaukee-Waukesha	59	43	-27.1	141	77	-45.0	11.4	10.4	-8.8
Minneapolis-St. Paul	33	15	-54.5	79	47	-40.5	8.1	6.7	-17.3
Northeast	613	557	-9.1	1,839	1,823	-0.9	10.6	11.4	7.5
South	1,459	966	-33.8	4,712	3,077	-34.7	15.7	13.9	-11.5
West	363	421	16.0	1,328	1,672	25.9	12.6	13.0	3.2

	Concentration of Poverty (%)								
	All			African American			Hispanic		
	1990	2000	% Change	1990	2000	% Change	1990	2000	% Change
U.S.	15.1	10.3	-31.8	30.4	18.6	-38.8	21.2	13.8	-34.9
Midwest	16.6	9.1	-45.2	41.8	20.6	-50.7	15.6	5.0	-68.0
Selected MSAs									
Detroit	36.0	10.4	-71.1	53.9	16.4	-69.6	36.1	6.9	-80.9
Chicago	26.4	13.7	-48.1	45.3	26.4	-41.7	12.4	4.7	-62.1
Milwaukee-Waukesha	43.3	21.9	-49.4	64.6	38.7	-40.1	54.9	5.3	-90.3
Minneapolis-St. Paul	17.3	8.6	-50.3	33.3	13.0	-61.0	18.2	5.9	-67.6

Northeast	16.2	13.8	-14.8	32.4	24.6	-24.1	33.2	24.9	-25.0
South	16.9	10.0	-40.8	27.5	16.6	-39.6	29.5	13.4	-54.6
West	9.1	9.1	0.0	15.1	14.4	-4.6	9.6	11.0	14.6

Median Household Income (in 1999 Dollars‡)

	1990	2000	% Change
U.S.	37,959	41,994	10.6
Midwest	37,047	42,414	14.5
Selected MSAs			
Detroit	43,861	49,160	12.1
Chicago	45,363	51,046	12.5
Milwaukee-Waukesha	40,868	46,132	12.9
Minneapolis-St. Paul	46,180	54,304	17.6
Northeast	42,719	45,481	6.5
South	33,887	38,790	14.5
West	40,755	45,084	10.6

†High-poverty neighborhoods.
*Metropolitan Statistical Areas.
‡1990 figures, adjusted by the U.S. Personal Consumption Expenditure deflator for comparability with 2000 figures.

Source: Paul Jargowsky, Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s, *The Living Cities Census Series, The Brookings Institution, May 2003; except for "Poverty Rate (%)" and "Median Household Income (in 1999 Dollars)," which were calculated by the Federal Reserve Bank of Minneapolis from U.S. Census Bureau data.*

Table 3: Poverty and Its Concentration, by Race/Ethnicity for the United States and Minneapolis-St. Paul, 1990 and 2000

	Poverty Rate (%)		Concentration of Poverty (%)	
	United States	Minneapolis-St. Paul	United States	Minneapolis-St. Paul

	1990	2000	% Change	1990	2000	% Change	1990	2000	% Change	1990	2000	% Change
All	13.1	12.4	-5.6	8.1	6.7	-17.3	15.1	10.3	-31.8	17.3	8.6	-50.3
White	9.8	9.1	-6.5	5.9	4.1	-30.5	7.1	5.9	-16.9	7.5	4.6	-38.7
African American	29.5	24.9	-15.4	37.0	26.2	-29.2	30.4	18.6	-38.8	33.3	13.0	-61.0
Hispanic	25.3	22.6	-10.4	19.0	17.8	-6.3	21.5	13.8	-35.8	18.2	5.9	-67.6
American Indian	30.9	25.7	-17.0	39.7	22.5	-43.3	30.6	19.5	-36.3	40.1	12.7	-68.3
Asian American	14.1	12.6	-10.7	31.9	19.1	-40.1	12.7	9.8	-22.8	50.3	18.8	-62.6
Single-Parent HHs[†]	38.2	30.5	-20.0	32.5	18.9	-41.8	NA*	NA	NA	16.7	7.2	-56.9

[†]Households.
*Not available.

Source: Figures were calculated by the Federal Reserve Bank of Minneapolis from U.S. Census Bureau data, except for those under "Concentration of Poverty (%): United States," which are from Paul Jargowsky, Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s, *The Living Cities Census Series, The Brookings Institution, May 2003.*

FEDERAL RESERVE BANK OF MINNEAPOLIS

Demographic trends reveal mixed portrait of Ninth District reservations

According to census data, Native American reservations did not benefit equally from the economic boom of the 1990s.

November 1, 2003

AUTHOR

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Was poverty reduction solely an urban phenomenon in the 1990s? Examining the poverty analysis literature might lead you to this conclusion, especially since scholars who examine the issue often focus on changes that occurred in metropolitan neighborhoods. However, changes in the incidence of poverty varied in other geographic areas. One way to examine trends in nonurban poverty is to look at the changes that took place over the decade in a rural part of the Ninth Federal Reserve District that is known for high poverty rates: Native American reservations.

This article examines several social and economic trends that have taken place on District reservations since 1990, with a focus on the change in poverty rates and incomes over the decade. At first glance, the significant changes that occurred during the decade suggest that reservations were generally better off in 2000 than they were 10 years earlier. While many of the changes were momentous, areas for concern remain—especially for the reservations' Native American populations.

Population trends

Broadly speaking, reservations are state- or federally recognized, geographically defined areas of varying size over which Native Americans have the primary governing authority. The Ninth Federal Reserve District, which encompasses Minnesota, Montana, the Dakotas, Upper Michigan and northwestern Wisconsin, has 45 reservations. Minnesota has the most, with 14, while Montana's 7 reservations have the highest total population, with 63,565 people in 2000 (see Table 1).

Overall, District reservation populations grew at a rate of 17.8 percent between 1990 and 2000. This rate was 4 percentage points higher than the rate for the rest of the nation (13.2 percent) and 5 points higher than the rate for Minnesota—the fastest growing of the District's six states. Many large Ninth District reservations posted moderate population gains, while smaller reservations (those with fewer than 1,000 residents) tended to grow at a much faster rate.

Population data categorized by race reveal that reservations are not just populated by Native Americans. 1/ While numbers vary across reservations, Native Americans accounted for approximately 60 percent of District reservation populations in 1990 and 2000. Whites were the second-largest racial group on reservations, accounting for 41 percent of the population in 1990 and 34 percent in 2000. Over the intervening decade, however, the growth in the Native American population accounted for 72 percent of the approximately 30,000 people added to the total District reservation population. Whether this increase was due to natural population growth or Native Americans returning to reservations remains unclear.

Income and poverty

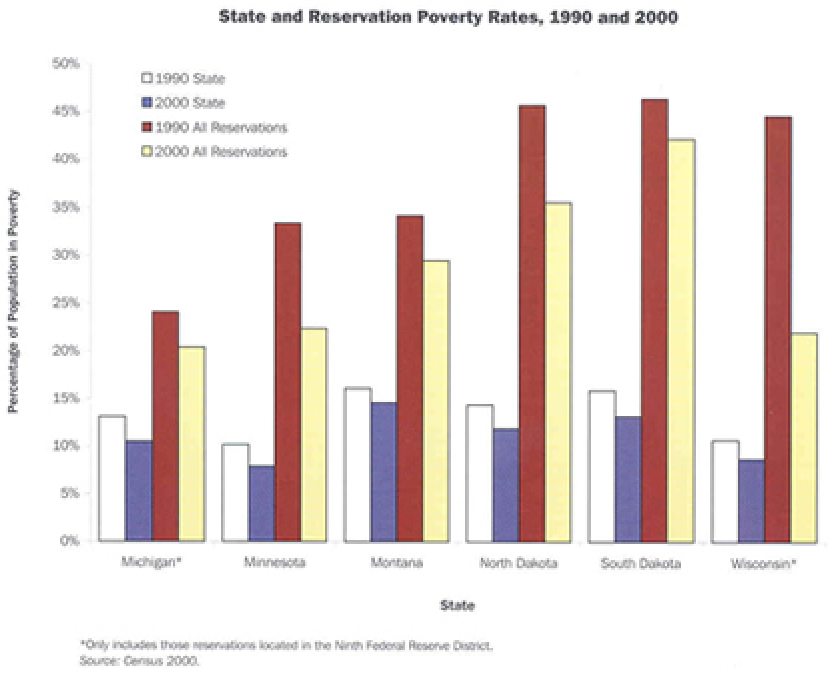
Overall, the decade saw an economywide boom that was generally accompanied by improved income and poverty trends for most reservations. However, Ninth District reservations did not benefit equally from the boom and most still lagged significantly behind their respective states on several important income and poverty indicators.

*Incomes increase.*For most reservations, median household income increased at a much higher rate than it did in their respective states. After adjusting for the change in price levels over the decade, the increase in household income on northern Wisconsin's Bad River Reservation was almost three and a half times that of the state of Wisconsin (57 percent and 16.8 percent, respectively). Some of the substantial increases in median household income may be partially attributed to revenue from reservations' casino operations. 2/

For example, the Flandreau Reservation near Sioux Falls, South Dakota, had a high level of casino revenue and an adjusted increase in median household income of close to 40 percent over the decade. Still, for almost one out of every five reservations in the Ninth District, the rate of increase in median household income was lower than the rate of increase of the state median, and in 90 percent of District reservations, median household incomes remained below their respective states' figures.

*Poverty drops.*Did the economic boom on District reservations lift residents out of poverty during the 1990s? Census data reveal that poverty rates decreased between 1990 and 2000 for almost every reservation (see Table 1). Overall, the poverty rate for the District's reservations dropped by 7.5 percent over the decade, with Wisconsin reservations, on average, showing the largest decline in poverty: a 22.5 percentage-point decrease. South Dakota reservations, on average, had the lowest decrease: 4.2 percentage points. The number of high-poverty reservations (those with a poverty rate above 40 percent) also declined, from 23 in 1990 to 9 in 2000.

More modest declines in the poverty rate were the rule for District reservations, especially for those with the largest populations. For example, the rate of poverty of the largest reservation in the District, the Flathead Reservation in Montana, decreased by 2.6 percentage points between 1990 and 2000. Two notable exceptions to this trend of decreasing rates included the Fort Peck (Montana) and Crow Creek (South Dakota) reservations, where the poverty rate increased by 3.8 and 6.9 percentage points, respectively. Even with dramatic proportional declines over the decade, District reservations had poverty rates in 1990 and 2000 that were considerably higher than the rates in their respective states (see the graph below).



For the Native American population on Ninth District reservations (61.3 percent of the total reservation population in 2000), poverty rates decreased by 12.2 percentage points over the decade. Poverty proved to be more widespread for Native Americans on reservations (see Table 2). For example, 42 percent of District Native Americans living on reservations were in poverty in 2000, compared to 32 percent of all reservation residents. Even though Native Americans were 60 percent of the total reservation population, they made up a larger share of the population in poverty for both decades (80 percent), further suggesting that poverty persists for this group even as household incomes increase.

A mixed portrait

In summary, despite the fact that a number of positive trends occurred during the 1990s, census data reveal a mixed economic portrait of Ninth District reservations. Reservation incomes increased and poverty declined. However, a sizable gap still exists between reservations and their respective states on these baseline poverty and income measures. The data also show that reservations did not benefit equally from the economic boom of the 1990s. Many small reservations with vibrant casinos located near large urban areas, such as Wisconsin's St. Croix or Forest County Potawatomi reservations, did very well. On larger reservations in the rural west of the District, such as Montana's Fort Peck Reservation, most indicators declined slightly or remained unchanged.

1/ When considering census data on race, it is important to note that Census 2000 significantly revised the questions used to identify race and ethnicity. In particular, questions related to Hispanic ethnicity were separated from race-related questions, and respondents could select more than one race category to describe themselves. Nationally, 98 percent of respondents chose only one category. For more on the changes to race and ethnicity in the 2000 census, see Elizabeth Grieco and Rachel Cassidy, *Overview of Race and Hispanic Origin*, Census 2000 Brief, U.S. Census Bureau, March 2001.

2/ For an analysis of Ninth District casinos, see Douglas Clement, “Not a great bet,” *fedgazette*, Federal Reserve Bank of Minneapolis, March 2003.

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Michael leads our efforts to promote the economic resilience and mobility of low- to moderate-income individuals and communities across the Ninth Federal Reserve District. He has conducted research and published articles on affordable housing, community development corporations, homeownership disparities, and foreclosure patterns and mitigation efforts.

A conversation with ... Chuck Johnson of the State of Minnesota Department of Human Services

Community Dividend speaks with Chuck Johnson of the State of Minnesota Department of Human Services about issues affecting low-income people.

November 1, 2003

Poverty deconcentration, the focus of our cover story, is just one of many factors that determine the state of poverty in America. To learn more about issues affecting low-income people, Community Dividend *spoke with Chuck Johnson, director of the Transition to Economic Stability Division at the Minnesota Department of Human Services (DHS).*

Throughout his nearly 20 years in public service, Johnson has worked on issues related to supporting low-income families as they transition to employment. He has been with the DHS for 14 years and currently oversees the Minnesota Family Investment Program (MFIP)—Minnesota's welfare reform program—and the Child Care Assistance Program. He previously served as director and research coordinator of the MFIP pilot project. Johnson holds a master's degree in public affairs from the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota.

Community Dividend: Poverty rates in Minnesota declined significantly in the 1990s. In addition to strong overall economic growth during that period, what contributed to the decline?

Chuck Johnson: I think a number of policy changes and other factors interacted with the good economy to help low-income families get themselves out of poverty.

From about 1997, when welfare reform was implemented nationally, to 1999 or 2000, there were some dramatic changes with single-parent families, which is the main group that uses welfare. Incomes and work rates for those families jumped and welfare caseloads declined dramatically. There's a debate over how much of that decline was due to the economy and how much was due to welfare reform, but there's general agreement that both played a role. And it wasn't just welfare reform itself, but the supports that were expanded at the same time, like child care resources and assistance, health care availability and the federal earned income tax credit and Minnesota working family tax credit.

CD: What effect have the recession, recovery and subsequent weak employment growth had on poverty in the Twin Cities and Minnesota?

CJ: The recession and the stop-and-start, jobless recovery have definitely had an impact, and we see it in our welfare population. Our caseload increased by about 10 percent when the recession hit and it hasn't decreased at all. During the late 1990s and into 2000, it was easy to place people in jobs, because there were jobs everywhere. Now it takes longer to find jobs for the families that are trying to come off of assistance.

CD: You mentioned welfare reform. In 1997, the federal government replaced its traditional Aid to Families with Dependent Children welfare program with Temporary Assistance for Needy Families (TANF), which emphasizes incentives for working. After six years, what is your assessment of TANF? Is it meeting the needs of low-income people?

CJ: It's generally worked pretty well, but it's a work in progress. It certainly helped reduce the number of people who are on assistance. In 1994, we had 64,000 families on assistance in Minnesota, and before the recession came in 2000, we were down to about 40,000.

There are two pieces of TANF that need more work. One is ensuring that people who transition to work have the support to make it once they're off of assistance. That brings me back to child care, health care and other supports. The average wage for families leaving assistance in Minnesota is about $9 an hour. That's not a great wage for a single parent with a couple of kids to support. Those families need health care coverage if they aren't getting it through their jobs. They need child care assistance and, in some cases, child support or some other source of money. We're doing a lot to keep those pieces in place for low-income workers, but more progress can be made.

The second challenge is more difficult. Under TANF, we have an increased level of intervention with families, and we've found that there's a subset of families on assistance that have multiple problems, like disabilities or mental illnesses, often packaged with family violence and other kinds of issues. Those people can't make a transition to work easily; they need a lot of support and intervention to get there. Those are difficult situations, and we're just starting to figure out what to do with those families.

CD: How widespread are those problems?

CJ: In the last year, about 38 percent of our caseload either had a mental health treatment or took some kind of psychotropic drug. In many cases, the main problem is depression, which is very high among single mothers, or family violence. Half or more of the population we serve has experienced family violence at some point in their lifetime. And for new immigrants, who may have fled their homeland or lived in refugee camps, post-traumatic stress related to the refugee experience can be a problem.

CD: TANF is funded through a mixture of federal grants and state funds. Minnesota had a tight budget in 2003 and will again in 2004-2005. How does that affect TANF funding?

CJ: We took a number of budget reductions in the 2003 legislature, some of which reduce benefits to families. We've targeted the reductions to try to limit their impact, but some of them have been painful for those low-income families that have lost benefits. We've pulled back toward the core mission of this department, toward our more vulnerable people. As a result, the people who are at a slightly higher income level and just need a little bit of help to get out of poverty end up receiving less assistance.

But the legislature also passed a package of welfare reform proposals that the governor put forward. We think those initiatives will enable us to intervene soon with families that have multiple barriers to employment and meet more aggressive federal participation standards that we expect to come when Congress reauthorizes the TANF legislation.

CD: According to Paul Jargowsky and other researchers, the concentration of poverty declined sharply in the 1990s in inner cities and many rural areas, but less so in the suburbs—especially older, inner-ring suburbs. Did Minnesota see a similar trend?

CJ: I know the distribution of the welfare caseload is still pretty concentrated within the Twin Cities, but more and more, we're finding concentrations of poverty in the first- and even second-ring suburbs. Some areas seem to have been hit hard by the loss of manufacturing jobs in the last few years, which has resulted in a number of families who wouldn't have previously had any contact with the social services system coming in and looking for help.

CD: There is disagreement over whether policymakers should actively seek to reduce the concentration of poverty, versus reducing poverty in general. What are your thoughts on the issue?

CJ: I think if you help people get on their feet and get the income they need, it enables them to make good choices about where they should live and what's best for their families. There are broad policies that try to deconcentrate poverty by spreading out subsidized housing, so we won't have the big, concentrated projects that were built 30 or 40 years ago. That certainly makes sense, and there are obvious benefits to families if there aren't concentrations of poverty. But public policy shouldn't be rigged in a way that makes it hard for people to exercise options to move where they want, in terms of the indirect subsidies that go into housing development across a region. I'm more on the side of helping individuals, providing them with supports and letting them make their own decisions about where to live.

HUD program is a key to Native American homeownership in District

A profile of the U.S. Department of Housing and Urban Development's Section 184 mortgage program for Native American communities.

November 1, 2003

AUTHOR

Paul S. Jurkowski

American Indians who wish to purchase homes on reservations often deal with a set of special concerns, including the trust status of the land and the lack of various elements that facilitate homeownership—like a mature resale market, local appraisers, licensed real estate agents and tribal laws that support mortgage lending. These concerns contribute to a homeownership rate that lags behind that of whites, particularly on reservations.

Organizations such as the Federal Home Loan Banks, the U.S. Department of Housing and Urban Development (HUD), Federal Reserve System, Fannie Mae, some state housing finance agencies, the USDA Rural Housing Services and the Bureau of Indian Affairs (BIA) have recently helped some Native American families become homeowners by sponsoring financial literacy training, homebuyer education, down payment and closing cost assistance programs and legal symposia on reservations in the Northern Plains.

One of these organizations, HUD, has provided $128.6 million in residential mortgage loans to more than 1,300 individual Indians or tribally designated housing authorities. The funds were made available through HUD's Office of Native American Programs Section 184 Indian Loan Guarantee (HUD Section 184), a unique program that can be used to purchase, construct or rehabilitate a home or refinance an existing mortgage on a reservation or in a defined Indian operating area.

HUD Section 184 program highlights

- One hundred percent guarantee to the lender.
- Refinancing available.
- Loans available nationwide on tribal trust, allotted trust or fee simple land in an Indian operating area.
- New and existing homes are eligible.
- Single-close construction/permanent loans.
- Minimal down payments of only 1.25 to 2.25 percent.
- No maximum income limits.
- Guarantee fee is only 1 percent and can be financed.
- Loans are assumable for eligible, qualified borrowers.

HUD Section 184 loans are available to individual Indians. They are also available to tribal housing authorities and tribes for the creation of rental or lease-purchase housing for tribal members. The program requires the borrower to make a minimal down payment, which can be covered by grants or gifts, and pay a guarantee fee of 1 percent. It features flexible underwriting policies and has no income limits. HUD provides the lender with a 100 percent guarantee for the outstanding loan balance and allows some closing costs to be financed. Loans are capped at 150 percent of the Federal Housing Administration's standard mortgage limits, which vary from county to county.

Tribal trust lands are inalienable, meaning they cannot be sold or mortgaged. Therefore, they cannot be encumbered by conventional mortgages, which typically provide for the sale of a property in the event of foreclosure. Trust lands can, however, be leased for specified terms with the approval of the (BIA). The HUD Section 184 program permits the use of leasehold mortgages where a tribe has leased trust land to a tribal member who, in turn, offers the lease as security for a loan. In such cases, the lease must be approved by the BIA and HUD and the tribe must have eviction, foreclosure and lien-priority ordinances in place. These ordinances protect both the lenders' financial interests and the tribes' land ownership interests and ensure that improvements to the property are not sold to nontribal members. In the case of default, the lender has the option to foreclose or assign the defaulted mortgage loan to HUD. Fannie Mae, Ginnie Mae, the Montana Board of Housing, North Dakota Housing Finance Agency and South Dakota Housing Development Authority provide a secondary market for HUD Section 184 loans.

Chippewa housing corporation provides lending alternative

Enrolled members of six bands of the Minnesota Chippewa Tribe have access to mortgage financing from Minnesota Chippewa Tribal Housing Corporation (MCTHC). Established in 1976 by the Minnesota Chippewa Tribe, the corporation offers home loan financing to low- and moderate-income members of the tribe who reside in Minnesota. The corporation will begin participating in the HUD Section 184 program in early 2004.

The corporation is:

- Funded through Minnesota Housing Finance Agency state appropriations;
- An approved Federal Housing Administration (FHA) lender; and
- A nonmember borrower of Federal Home Loan Bank.

MCTHC services include:

- Low-interest financing for the purchase, construction and rehabilitation of single-family homes. No loans are made to refinance existing mortgages.
- Low-interest financing for member bands' housing developments;
- In-house loan servicing; and
- Technical assistance to member bands in housing-related areas, with an emphasis on helping organizations complete grant applications.

From 1976 through 2002, MCTHC

- Received $33.2 million in state funding; and
- Made 1,709 loans, including 822 revolved or paid loans and 887 rehab loans on currently occupied homes. These include 744 homes on one of the six Minnesota Chippewa Tribe reservations, 129 homes located in rural areas off reservations and 14 homes located in urban areas.

In 2000, MCTHC made 66 loans through revolving funds and state funds totaling approximately $5 million. Thirteen of these loans were FHA-guaranteed and totaled $777,366.

For more information on MCTHC, contact Rick Wuori, program director, at (218) 335-8582 or mcthl@paulbunyan.net, or visit www.mnchippewatribe.org/housing.htm.

Fiscal Year 2003 has seen some modest success for HUD Section 184. HUD's Office of Loan Guarantee, located in Denver, issued $40.3 million in loan commitments and guaranteed $27.2 million in closed loans. These numbers represent increases of 58 percent and 63 percent, respectively, over the previous year.

What is the Native American homeownership rate?

As the article points out, the homeownership rate among Native Americans lags behind that of whites. But how big is the difference?

According to the U.S. Census Bureau, 55 percent of American Indian and Alaskan Native households owned their own homes in 2002, versus 72 percent of white households. But the homeownership rate for Native Americans on reservations or trust lands, which is what HUD Section 184 is designed to address, is much lower. According to a National American Indian Housing Council press release from late 2002, a study funded by the Fannie Mae Foundation and conducted by Rutgers University found that 41 percent of Native Americans living on reservations or trust lands are homeowners, compared to 74 percent of the total white population in the U.S.

More than 20 lenders in the Ninth District participate in the program, including Bremer Bank in Bayfield, Wisconsin; Union State Bank in Hayzen, North Dakota; and Chippewa Valley Bank in Winter, Wisconsin. Ronan State Bank in Pablo, Montana, is a newly active HUD Section 184 lender serving the Salish and Kootenai Tribes of the Flathead Reservation. U.S. Bank continues to participate in the program in Wisconsin, and Wells Fargo Home Mortgage in Sioux Falls, South Dakota, has assisted each South Dakota reservation and produced the largest amount of HUD Section 184 loans nationwide. To date, over $20.4 million in HUD Section 184 loans have been guaranteed in the Ninth District with 24 different tribes.

Tribal land definitions

Indian Country. The U.S. Congress has defined "Indian Country" as land inside the boundaries of Indian reservations, communities made up mainly of American Indians and Alaskan Natives, and Indian trust and restricted fee land.

Reservation. An Indian reservation is land a tribe reserved for itself when it relinquished other land areas to the U.S. through treaties. More recently, executive orders, administrative acts and acts of Congress have created reservations.

Tribal trust land is land for which the federal government holds legal title as trustee, with the beneficial interest on the land retained by a tribe. Because the federal government retains legal title to trust land, state and local tax, zoning and land-use laws do not apply. Tribal trust lands may be leased, subject to the approval of the Secretary of the Interior, but may not be mortgaged or sold.

Restricted tribal fee land is land for which a tribe holds legal title but which is subject to legal restrictions against alienation (i.e., being sold) or encumbrances (such as leases or easements). Like tribal trust land, restricted fee land may be leased, subject to the approval of the Secretary of the Interior, but may not be mortgaged or sold.

Individual trust land, like tribal trust land, is land for which the federal government holds legal title, with the beneficial interest on the land held by an individual Indian. *Restricted fee land*may also be owned by individual Indians. Both individual trust lands and individually owned restricted fee lands are lands that were originally removed from tribal ownership and allotted to individual tribal members during the late nineteenth and early twentieth centuries. Both are subject to restrictions against alienation or encumbrance and therefore cannot be sold, leased or mortgaged without approval from the Secretary of the Interior. Unlike tribal trust and restricted tribal fee lands, individual trust and restricted fee lands can, with the appropriate approvals, be mortgaged, subjected to liens and foreclosure and—in some cases—sold to nontribal members.

Fee simple land in Indian Country may be held by a tribe, an individual Indian or a non-Indian. Generally, it does not carry the same restrictions as trust or restricted land, and in most cases can be readily sold, mortgaged or otherwise encumbered. Use of tribally owned fee simple land as security for a loan may require approval from the Secretary of the Interior.

Sources: Holland & Hart LLP and the Internal Revenue Service.

For more information on HUD Section 184, contact the Office of Native American Programs at (800) 561-5913 or visit www.hud.gov/offices/pih/ih/homeownership/184/.

Paul S. Jurkowski is the director of the Office of Loan Guarantee for HUD's Office of Native American Programs.

FEDERAL RESERVE BANK OF MINNEAPOLIS

Recent ECOA amendments allow lenders an exception for self-testing

A summary of recent changes to Regulation B-the Equal Credit Opportunity Act.

November 1, 2003

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On April 15, 2003, the Board of Governors of the Federal Reserve System (Board) approved several amendments to Regulation B-the Equal Credit Opportunity Act (ECOA). Although the changes were effective on that date, the mandatory date for complying with them is April 15, 2004.

One of the most significant changes to Regulation B is the addition of an exception that allows banks to collect information on personal characteristics, such as race and sex, from nonmortgage applicants if the data will be used as part of a self-test program. Self-testing, discussed below, is a proactive way for a bank to monitor its loan-underwriting process.

A delicate balance

The ECOA was enacted in 1974 to counter a variety of discriminatory practices that were once prevalent in credit markets. In particular, it targeted discrimination based on sex and marital status. The act has since been amended several times to expand its protections. Regulation B, which implements the ECOA, prohibits discrimination in any credit transaction—whether for consumer or business purposes—on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs and the good faith exercise of any rights under the Consumer Credit Protection Act. Regulation B applies to anyone who, in the ordinary course of business, regularly participates in decisions about whether or not to extend credit or how much credit to extend.

To prevent discrimination, Regulation B imposes a delicate balance on the credit system, in recognition of both the creditor's need to know as much as possible about a prospective borrower and the borrower's right not to disclose information that is irrelevant to the transaction. The regulation deals with accepting, evaluating and acting on the application, and with furnishing and maintaining credit information. Regulation B does not prevent a creditor from obtaining any pertinent information necessary for evaluating the creditworthiness of an applicant.

Monitoring information

Regulation B generally prohibits creditors from asking about, or noting, an applicant's sex, race, color, religion or national origin, due to concerns that the collection of such data may lead to unlawful discrimination. However, to help banking regulators monitor compliance with Regulation B, creditors are required to collect information regarding mortgage loan applicants' race, sex and marital status in cases where the application is for credit to purchase or refinance the applicant's principal residence and the loan will be secured by that residence. Regulation B refers to this process as the collection of *monitoring information.*

Although Regulation B generally continues to prohibit creditors from collecting monitoring information on nonmortgage credit applications, the Board amended the regulation to allow one exception. Under the amendment, lenders are allowed to collect monitoring information on nonmortgage credit applications if the data are used as part of a self-test to determine compliance with Regulation B and the ECOA.

Whether a creditor elects to collect monitoring information on nonmortgage transactions in conjunction with a self-test program or continues to collect the information only on mortgage loan applications, it must disclose to the applicant that it is collecting the monitoring information and that if the applicant does not wish to provide the information, the creditor will note the applicant's race and sex based on a visual observation and/or review of his or her surname.

The self-test exception

Under the amendments, section 202.5(b)(1) of Regulation B explains that a creditor may inquire about the race, color, religion, national origin or sex of an applicant or any other person in connection with any credit transaction for the purpose of conducting a self-test that meets the requirements of section 202.15 of Regulation B. Section 202.15 defines a self-test as any program, practice or study that:

- Is designed and used specifically to determine the extent or effectiveness of a creditor's compliance with the ECOA or Regulation B, and
- Creates data or factual information that is not available and cannot be derived from loan or application files or other records related to credit transactions.

To meet the self-test requirements of section 202.15, an institution must take appropriate corrective action when the self-test shows that it is more likely than not that a violation occurred. Section 202.15(c)(2) explains that an institution should take corrective action that is reasonably likely to remedy the cause of the violation by (1) identifying the policies or practices that are the likely cause of the violation and (2) assessing the extent and scope of any violation.

Results are privileged

If the bank meets the criteria outlined in section 202.15, the results of the self-test will be considered privileged. As such, government agencies will not have access to this information in the course of an ECOA-related examination or investigation. The self-test results will also be protected from use in a civil action alleging a violation of the ECOA or Regulation B. An institution may lose this privilege by engaging in several activities outlined in section 202.15.

Required disclosures

An institution that collects personal information on nonmortgage applicants as part of a self-test must disclose certain information in writing or orally at the time the information is requested. Specifically, the bank must disclose to the applicant that:

- The applicant is not required to provide the information;
- The creditor is requesting the information to monitor its compliance with the ECOA;
- Federal law prohibits the creditor from discriminating on the basis of this information or on an applicant's decision not to provide the information; and
- If applicable, certain information will be collected based on visual observation or surname, if not provided by the applicant.

Additional actions

The preamble to the regulatory amendments outlines additional actions that a bank must take when conducting any self-tests for which it collects race, sex and other personal information on nonmortgage applicants. The institution must:

- Keep the personal information collected as part of the self-test separate from loan or application files and from other business records related to the credit transaction;
- Evaluate the personal information as part of the self-test only and not as part of the credit decision-making process;
- Analyze the data in a timely manner as part of the self-test; and
- Develop a written plan that describes the specific purpose of the self-test, the methodology to be used, the geographic area covered by the test, the types of credit transactions involved, the entity that will conduct the test and analyze the results (such as the audit department) and the timing of the test.

Under the amended Regulation B, creditors have the flexibility to develop a variety of self-testing techniques to ensure fair lending compliance in credit transactions. For example, a self-test may be able to determine if people seeking credit are treated differently from other applicants on the basis of race, age, sex, religion or national origin. Also, a self-test may be able to determine if any disparities exist in the terms and conditions of the loan agreements among applicants of different ages, sexes or races.

For more information on Regulation B and the ECOA, visit the Board's Web site at [www.federalreserve.gov/boarddocs/press/bcreg/2003/ 20030305/default.htm](www.federalreserve.gov/boarddocs/press/bcreg/2003/20030305/default.htm).

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FACT Act creates financial literacy commission

November 1, 2003

The Fair and Accurate Credit Transactions (FACT) Act of 2003, signed on December 4, created a federal commission that will work to develop a national strategy for improving financial literacy and education in the U.S.

The FACT Act, which extends or amends certain provisions of the Fair Credit Reporting Act of 1970, established the Financial Literacy and Education Commission (FLEC). The commission will be composed of the Secretary of the Treasury and the heads of more than 15 other federal departments and agencies. FLEC duties include improving the federal government's financial literacy and education programs, materials and curricula; creating and maintaining a Web site to serve as a one-stop source of financial literacy information; and developing a pilot multimedia public service campaign to promote financial literacy and education nationwide.

To read the full FACT Act provisions related to the FLEC, visit http://thomas.loc.gov and search for bill number H.R.2622.ENR. For more information about the Federal Reserve System's financial education initiatives, visit www.federalreserveeducation.org/pfed/.

Volvo recognizes hometown hero

November 1, 2003

Robert Young, executive director of Red Feather Development Group (RFDG) in Bozeman, Montana, was recently named America's Greatest Hometown Hero in the first annual Volvo for Life Awards. The award program, sponsored by Volvo Cars of North America, recognizes everyday heroes who help people in need. In addition to a one-time grant package totaling $60,000, Volvo will award Young a new car every three years for the rest of his life.

Young established RFDG in 1995 to improve living conditions on Native American reservations, where thousands of people are homeless or live in overcrowded, substandard housing. The organization teaches reservation residents to build affordable, energy-efficient homes out of straw bales. Since 1995, RFDG has completed a total of 37 building projects in Washington, Montana and the Dakotas. Current projects include the development of a straw-bale environmental research facility at Turtle Mountain Community College on North Dakota's Turtle Mountain Reservation.

For more information on RFDG, visit www.redfeather.org or call (406) 585-7188.