Editor's note - Issue 4, 2005

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AUTHOR

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Accomplishments in the community development field are often expressed in big numbers. There are multimillion-dollar financing deals, thousands of units of affordable housing constructed in a given year and so on. The totals are impressive, but they can seem a bit impersonal. At what point do they stop being numbers and start transforming lives?

The main features in this issue of *Community Dividend*emphasize the importance of the personal touch in community development. The context is one-on-one counseling and assistance, provided by dedicated volunteers.

The Minnesota Mortgage Foreclosure Prevention Association (MMFPA), profiled in our cover feature, is an all-volunteer organization that counsels people who are on the verge of losing their homes. The association works closely with its clients, customizing its assistance according to each homeowner's circumstances. As discussed in a companion article on post-purchase support programs for homebuyers, this kind of intensive, personalized attention can significantly reduce the incidence of foreclosure. A third feature in this issue discusses a Volunteer Income Tax Assistance (VITA) program in North Central Montana. By devoting their time and attention to understanding each client's unique financial situation, the program's trained volunteers helped hundreds of low-income workers file for much-needed tax refunds.

Through their efforts, the MMFPA and the Montana VITA program demonstrate that community successes don't always have to be measured on a grand scale. Sometimes, they can be measured one homeowner or taxpayer at a time.

Mutual rewards: Thoughts on serving as a board member for a nonprofit organization

Minneapolis Fed President Gary Stern is a past or current member of the board of numerous nonprofit organizations. Here, he shares a few thoughts on the lessons of his service.

November 1, 2005

AUTHOR

Gary H. Stern

Former President (1985 - 2009)

Minneapolis Fed President Gary Stern is a past or current member of the board of numerous nonprofit organizations, including the National Council on Economic Education, the Northwest Area Foundation, the University of Minnesota's Carlson School of Management, Hamline University and the Minneapolis College of Art and Design. As a special to Community Dividend*, Stern shares a few thoughts on the lessons of his service.*

Serving on the board of directors of a nonprofit organization can be a mutually rewarding experience. For a nonprofit operating in an environment of limited financial resources, the board provides an available pool of talent and expertise that might otherwise be out of reach. For the board member, the experience can be personally enriching and educational. It's an opportunity to learn about other perspectives and leadership styles while contributing to an organization's development.

I've had the privilege of serving on a number of different boards over the last 20 years. Although board structures and circumstances vary, a few themes seem constant from organization to organization. What follows are some reflections on those themes.

The objectives are the key. If you plan to serve on a board, be sure the organization's objectives are a good match for your own values and interests. If they're not, serving on that board won't be a good fit in the long run. You'll pass time there, but it's unlikely you'll make much of a contribution.

Strong internal leadership is crucial. I've served on lots of different boards and seen lots of different leadership styles, and there is no one approach that works. That said, it's crucial for the organization to have a strong, effective internal leader—in other words, a strong president or executive director, or whatever the title might be. A board can and should be helpful, but it can't substitute for an effective internal leader, regardless of that individual's style. For that reason, I think the most important thing a board can do is select and retain good senior leadership—and, when necessary, dismiss the leadership if the organization isn't being managed effectively.

Tranquility's fine, but transitions are better. If you serve on a board where everything seems to be running smoothly—that is, the leadership is strong and effective, the board functions well and the organization is making progress toward its objectives—then there's often not much to do but show up at the meetings and vote "yes."

Personally, I've found it more interesting and rewarding to serve on the boards of organizations that are going through some sort of transition. There's a fair amount of turbulence in the nonprofit world, and significant transitions happen. They provide opportunities to apply your skills and make real contributions to the organization. On the down side, transitions require more time and attention from board members, which can make it a challenge to balance board membership with other work. You just have to make sure the organization knows your full-time job comes first.

Size and diversity count. Boards vary in size; in general, I think small boards are preferable. On a large board with 20 or more people, the executive committee is usually the heart of the action, and other committees play a less important role. That can make it difficult for all members to contribute fully.

Boards also vary in their diversity objectives, and I think having a diverse board is helpful, for a number of reasons. If you have a diversity of backgrounds and expertise, people aren't likely to see the world in the same way. It creates healthy interaction, which can generate new ideas. It also provides an opportunity to play to different strengths. Board members can serve on the committees that best match their skills and expertise.

A diverse board can be especially important for a community-based nonprofit, because organizations tend to become a little insular over time. If most of the board members are insiders, or people who are already involved in and knowledgeable about the community, then it's good to bring in a couple of outsiders. By *outsiders,*I'm not necessarily referring to geography; I mean people with different backgrounds and perspectives who have the connections to know when something big and important is happening elsewhere.

If you want to contribute, don't hesitate to approach the organization. Boards typically recruit their members, and the process can seem closed-off to an observer. However, that shouldn't stop an individual who has an interest in a particular organization or cause from getting involved. If you contact a senior staff person or board member of a nonprofit, you'll often find that the organization will welcome your help. You might not end up as a board member right away, but lots of good things come from small beginnings. Nonprofits recognize that people who are committed to the organizations' objectives will find ways to make important contributions.

Results of tourism development are largely positive, study says

November 1, 2005

Development of recreation and tourism in rural counties yields mainly positive results, according to a new study by the U.S. Department of Agriculture's Economic Research Service (ERS).

ERS researchers set out to examine whether the tourism industry strengthens and diversifies rural economies or lowers living standards by generating low-skill, low-wage jobs. They analyzed socioeconomic data and trends for 311 rural counties that they deemed *recreation-dependent,*or as having a certain percentage of local income, employment and housing directly attributable to tourism and recreation. The studied counties are located in 43 different states, but are concentrated in the West, the Upper Great Lakes region and the Northeast.

The findings, detailed in the report *Recreation, Tourism and Well-Being,* indicate that the effects of tourism development are positive overall. The study found that recreation and tourism development increases employment rates, earnings and educational attainment while decreasing poverty rates. However, results varied according to the type of tourism offered. For example, counties located in ski areas fared better than those that offered less profitable forms of recreation. The ERS researchers found that housing costs do increase with development, but not enough to offset increases in income. In addition, they found little evidence of increased traffic congestion in recreation-dependent counties.

To access the report, visit www.ers.usda.gov/publications.

Foreclosure prevention is Minnesota group's mission

The Minnesota Mortgage Foreclosure Prevention Association is a statewide network of individuals and member organizations that dedicate their time to a serious mission: helping people avoid home mortgage foreclosure.

November 1, 2005

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The Minnesota Mortgage Foreclosure Prevention Association (MMFPA) is a statewide network of individuals and member organizations that dedicate their time to a serious mission: helping people avoid home mortgage foreclosure. The association provides foreclosure prevention services in every county in Minnesota and ranks as one of six leading foreclosure prevention programs in the United States, according to a group of nonprofit executives working with the Fannie Mae foundation on innovations in foreclosure prevention. 1/

MMFPA was spawned in 1993 by a group of concerned individuals who witnessed the financial crises and farm foreclosures of the 1980s and identified a need for foreclosure prevention services in Minnesota. The founders included social service providers, mortgage lenders, credit counselors, attorneys and neighborhood activists. The initial thrust of the organization was to provide quality education and training so housing professionals could help people who were behind in their mortgages or facing foreclosure. According to real estate agent Mike Mohs, a longtime member and current board president of MMFPA, "The founders recognized there was a need for professionals in the housing industry to get certain things they weren't getting from their own organizations—namely, education about foreclosure prevention and homeownership."

Today, MMFPA operates on three fronts: providing support, information and networking for individuals and organizations working to prevent foreclosures in Minnesota; educating and training housing professionals to improve the quality and availability of mortgage foreclosure prevention programs and services for Minnesota residents; and advocating policies and practices that enhance foreclosure prevention counseling.

The association is made up of approximately 80 individuals and member organizations, including real estate agents, attorneys, bankers, mortgage lenders, county agents, loan officers and social service providers. It has a 13-member governance board and operates under clear, precise bylaws that emphasize high and consistent quality of services. Association members are bound by a detailed code of ethics that addresses issues of professional conduct, conflicts of interest, discrimination and confidentiality.

Volunteer spirit

One unique aspect of MMFPA is its ability to function and thrive as a volunteer organization. The association has only one paid staff person and minimal funding. Most of its members have full-time jobs, but are able to provide services through their commitment to the organization's mission.

"We rely on the volunteer spirit of the members," says Mohs. "It's pretty amazing. They're willing to pitch in and share the load."

Susan Aulie, a former MMFPA board member who serves as senior director of financial services for Lutheran Social Service in Duluth, adds, "It helps that the organizations our members work for are committed to the purpose of the association. They support their employees' attendance at meetings and other activities."

An emphasis on training

Another noteworthy aspect of MMFPA's work is its emphasis on high-quality, ongoing training. In order to provide Minnesota residents with effective financial counseling that can prevent foreclosures, service providers must be well-trained. The cornerstone of MMFPA's training program is an eight-day session conducted every September.

According to Mohs, "It's a lengthy, in-depth training that covers the whole foreclosure process, from basic real estate knowledge to bankruptcy to negotiation with lenders to dealing with clients on a personal level." At the end of the session, participants must pass a written test to become certified by MMFPA.

In addition to its annual eight-day sessions, the association conducts quarterly inservice trainings. Examples include one held last April, "Foreclosure 303," which was designed for working counselors who wanted to review and deepen their skills. A July training session focused on reverse mortgages and elder housing issues. The association is considering whether to offer training later this year on changes in bankruptcy laws that took effect in October of 2005. Mohs notes that these new laws will require people to complete financial counseling before they can declare bankruptcy. MMFPA plans to seek recognition of its certified counselors as qualified specialists.

MMFPA requires members to complete two trainings every two years to maintain their certification. One of these trainings can be taken at the association's annual meeting. MMFPA's trainers are often selected on a referral basis and usually have in-depth knowledge of the subject matter they teach. For example, the foreclosure process is typically taught by an attorney, as is the bankruptcy process. Lenders provide a portion of the finance-related training. Fees paid by trainees, which range from $25-$50 for quarterly sessions up to $295 for the annual sessions, provide much of the funding for MMFPA.

In a paper on the effectiveness of foreclosure prevention programs, housing researchers J. Michael Collins and Rochelle Nawrocki Gorey note that MMFPA is a national model for training because of its standardized curriculum, certification and continuing education requirements. The organization is also recognized for utilizing detailed case studies and engaging experienced counselors as trainers. 2/

Financial crises, then and now

Mohs observes that while MMFPA has changed over the years, the causes of financial hardship that lead to foreclosures have stayed about the same.

"Our work has gotten better," he observes. "We've become more proficient at what we do. We've expanded our training and now offer better, more comprehensive courses. But the cases we dealt with in the beginning were much the same as the cases now. People get into financial difficulty for any number of reasons: medical expenses, loss of a job, being a victim of predatory lending. It's a huge problem. I see the same thing time after time, with little variation."

Aulie concurs. "People get behind," she says. "The situation isn't all that different now than it was in the past, except maybe today things are a bit more complex because there are so many more mortgage products available and predatory lending is on the rise."

The counseling process

A homeowner looking for help with foreclosure issues can locate local MMFPA-certified counselors through referrals or by checking the organization's Web site at www.mmfpa.org, which features a map that includes contact information for counselors in every Minnesota county.

MMFPA-trained counselors use two primary strategies in their interventions with people in mortgage trouble: financial counseling and financial assistance.

Financial counseling is what MMFPA stresses in its training and outreach. During the counseling process, a foreclosure prevention specialist works with the homeowners to develop a plan that addresses the multiple factors behind their difficulties. First, they must analyze the sources of the problems, which could include issues such as abuse, health setbacks and job loss that may warrant the services of outside agencies. Almost any plan would include referrals to city and county emergency services, health clinics or nonprofit social service providers.

Second, they develop a plan to address the family's expenses, debt structure and spending habits. Counselors work with people to develop a realistic budget that reprioritizes how they allocate their funds, seeking to place mortgage payments near the top of the priority list. For those who are severely delinquent and are confronting serious life crises, debt counseling usually must be combined with publicly funded financial assistance and options generated with the lender. For those who are moderately delinquent and are facing temporary or less severe challenges, debt counseling can often get people back on their feet.

The second strategy MMFPA-certified counselors use is direct **financial assistance** through a loan program financed by the Minnesota Housing Finance Agency (MHFA). To qualify, borrowers must demonstrate that they have no other financial options, their shortfall is temporary and they are committed to rectifying their situation. The maximum loan available is $5,500 at zero percent interest, made on a one-time basis, to be repaid upon sale of the home or transfer of the title.

Working with the lender

MMFPA stresses that working with a person's mortgage lender is essential for nearly all individuals dealing with mortgage payment delinquency. The type of negotiation between a homeowner and a mortgage lender in this situation is called *loss mitigation*and the alternatives are called *workout options.* Such options can include temporary changes in payments or changes to the loan term or interest rate.

Mortgage companies have an incentive to negotiate, because delinquencies and foreclosures result in huge revenue losses for lenders. The leading foreclosure prevention programs demonstrate that significant savings can be realized when lenders and loan servicers partner with nonprofit prevention programs to stave off foreclosures. 3/

At times, foreclosure prevention specialists might advise selling the home, if there is equity to be had. Foreclosure prevention specialists will also discuss options such as refinancing or declaring bankruptcy, but will generally point out that these choices can involve more pitfalls than benefits for the homeowner.

Gauging effectiveness

Measuring the effectiveness of MMFPA's counseling and other services is a challenge. Individual agencies regularly submit reports to funders on initial outcomes, covering issues such as whether the home was saved or foreclosed or the mortgage was brought current, and MMFPA reports these initial outcomes to MHFA. Longer-term results are harder to track.

"There hasn't been a cost-benefit analysis," says Mohs. "It's been a tough thing for us to gather information about, because we're an organization made up of people from other organizations. In the past, we've had to rely on our individual members to get into a data-gathering mode."

The first centralized effort to measure long-term results is under way. An intern working with Lutheran Social Service, which is the largest provider of an MHFA-sponsored foreclosure prevention program, recently began surveying people who received foreclosure prevention services from MMFPA-trained counselors. Surveys have been conducted by mail and telephone, and responses are currently being tabulated.

Early results confirm that the MHFA-financed loan fund is a particularly effective component of MMFPA's services. However, some survey responses have raised questions about clients' expectations. According to Aulie, "In some cases, people who didn't receive a one-time MHFA loan didn't think they'd been helped. We thought we'd served them well, giving them tools and leveraging our resources, but if they didn't get money, clients didn't always see our efforts as helpful. It's made us think more about the clients who don't get loans. How can we serve them better? How can we make sure that their expectations are appropriate? What are their options?"

MMFPA's passion for seeking answers to those questions reflects the organization's spirit and dedication.

"Through MMFPA, I learned the importance of commitment and belief and passion in the mission," Aulie says.

"MMFPA has been successful because of extremely compassionate and dedicated people," adds Mohs. "We've been very fortunate in attracting people who are willing to go above and beyond their jobs. The fact that we're an all-volunteer organization still in existence is a testament to our effectiveness."

1/ Collins, J. Michael and Rochelle Nawrocki Gorey, "Analyzing Elements of Leading Default-Intervention Programs," White Paper, Policy Lab Consulting Group, 2004, p. 6.

2/ *Ibid.*, p. 18.

3/ *Ibid.*, p. 13.

Foreclosure basics

Foreclosure is the legal means by which a lender repossesses mortgaged property. The foreclosure process is a time-sensitive sequence of actions and events that are initiated at the county level and governed by state laws. All foreclosure laws are uniform in the sense of requiring parties to take certain actions within specified time frames, but the details vary from state to state. For example, some states have short time frames for borrowers to pay what is owed, while other states give borrowers more time.

In the initial stages of the process, most lenders will negotiate with the borrower in an attempt to avoid foreclosure. Outside help in the form of financial counseling, interest-free emergency loans or other interventions may enable a delinquent borrower to bring the mortgage current and halt further legal action. In some cases, the borrower decides that selling the home to pay off the mortgage is the best solution. As a last resort, the borrower may opt to declare bankruptcy.

There are two main types of foreclosure: judicial, in which a lender pursues foreclosure through the court system; and nonjudicial, in which foreclosure is initiated through notices or public advertisements. In most states, nonjudicial foreclosure is the less complex and more common variety.

The timeline below lists major steps in the nonjudicial foreclosure process. Events and time frames are generalized here; an actual foreclosure may differ significantly from this example, depending on the state in which it takes place.

Sample Foreclosure Timeline

Day	Event
1	First day of the month; borrower misses mortgage payment.
15	Lender charges late fee and contacts borrower to inquire about missed payment.
30	Borrower misses second mortgage payment. Collection calls begin and the loan is now considered in default.
45	Lender charges second late fee; collection calls continue.
60	Borrower misses third mortgage payment. Lender notifies the borrower that foreclosure will be pursued if the delinquent amount is not paid.
75	Lender charges third late fee.
90	Borrower misses fourth mortgage payment. Lender hires an attorney to initiate foreclosure proceedings.
100-120	Foreclosure proceedings begin. Lender's attorney files papers at the local courthouse and serves borrower with formal notice of foreclosure. Advertisement of foreclosure sale appears in local newspaper.
150	Property is sold to the highest bidder at sheriff sale or public auction. *Redemption period*begins, during which the borrower can repurchase the property if he or she has the money. The borrower can continue to occupy the home during this period.
330	Redemption period ends; borrower must surrender the property and vacate the premises.

Sources: Minnesota Mortgage Foreclosure Prevention Association, Bankrate.com and Minnesota Statutes Chapters 580 to 583.

VITA initiative provides free tax preparation in North Central Montana

A coalition led by Consumer Credit Counseling Services of Montana provides free tax preparation assistance to residents of the state's North Central region.

November 1, 2005

AUTHOR

Shannon Augare

With the end of the year in sight and another tax time approaching, a coalition led by Consumer Credit Counseling Service (CCCS) of Montana will soon gear up for its second season of providing free tax preparation assistance to residents of the state's North Central region.

The effort is part of the Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) program, which was created to raise awareness of the Earned Income Tax Credit, or EITC. The EITC is an integral part of helping low-income individuals build personal assets. (For more information on the EITC, see the sidebar below.) The credit is especially important in North Central Montana, where 25,000 of the area's 150,000 residents live on incomes that fall below the federal poverty line.

During its debut tax season in 2005, the VITA initiative helped 205 low-income wage earners in rural North Central Montana claim a total of $358,250 in tax refunds. In the process, the free service saved those individuals an estimated total of $20,500 in tax preparation fees.

The initiative operated five sites located in the cities of Havre and Great Falls and on the Blackfeet, Rocky Boy and Fort Belknap Indian Reservations. The sites were staffed by students, retirees and other community members who received IRS-certified tax preparation training at local tribal colleges. Coordinators plan to expand to 13 sites in 2006 and will operate mobile units that can travel to remote rural areas.

The support of many individuals and organizations helped ensure the success of the program in 2005.

"We wish to thank all of the coalition partners who lent their support," says Tom Jacobson, Executive Director of CCCS of Montana. "Through the collaborative efforts of our partners, we'll be able to expand this program across the state and reach more Montanans year after year."

The project is primarily funded by the W.K. Kellogg Foundation. Seed money was provided by Opportunity Link, a program of the Northwest Area Foundation. Other funders include the State of Montana, North Central Montana Community Ventures Coalition, and the Montana Community Foundation. Coalition partners include U.S. Senator Max Baucus; Montana Governor Brian Schweitzer; the Blackfeet, Fort Belknap and Chippewa-Cree Rocky Boy Indian Nations; IRS; United Way of Cascade County; Montana Credit Union Network; Montana Association of County Officials; Native American Bank; First Interstate Bank; Weed and Seed Program of Great Falls; Montana HomeOwnership Network; National Rural Funders Collaborative; Cascade County Office of Public Assistance; and Center on Budget and Policy Priorities.

Shannon Augare is the director of community asset development for CCCS of Montana, a 501(c)(3) nonprofit corporation that has provided financial counseling and education to Montanans for nearly 40 years. For more information on the North Central Montana VITA project, contact him at (877) 275-2227.

EITCs in brief

Congress established the Earned Income Tax Credit (EITC) in 1975 to assist low-income working individuals and families. The EITC is a *refundable*credit, meaning if a worker's income tax liability is less than the amount of the credit for which he or she qualifies, the worker receives the remaining amount of the credit as a refund.

To claim the EITC, workers must meet certain income qualifications and file tax returns, even if they do not owe any tax or their incomes are so low that they are not otherwise required to file. The size of the credit ranges from several hundred dollars to more than $4,000, depending on the amount of earned income and the number of qualifying children in the household.

Over its 30-year history, the EITC has developed into the nation's largest antipoverty program. In 2004, an estimated 22 million people received a total of $38 billion through the EITC, an amount approximately equal to the benefits under the federal Temporary Assistance for Needy Families and Food Stamps programs combined. However, the Internal Revenue Service (IRS) estimates that 25 percent of people who qualify do not file for the credit, resulting in billions of dollars in unclaimed tax relief each year. To spread the word about the EITC, the IRS works with community coalitions, financial institutions and other partners in sponsoring Volunteer Income Tax Assistance, or VITA, sites throughout the country.

Information on the EITC was provided by Judith LaBrosse, a senior tax specialist with the IRS. She can be reached at (651) 726-1583. For more information on the VITA site program, contact the IRS at (800) 829-1040.

Post-purchase counseling: An EMHI strategy to close homeownership gaps

Minnesota appears to be well-positioned to pursue the goal of using post-purchase support programs to reduce the incidence of mortgage foreclosures.

November 1, 2005

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A previous edition of Community Dividend *(Issue No. 2, 2005) focused on the State of Minnesota's Emerging Markets Homeownership Initiative. The following feature is a condensed version of an article that examines a principal strategy in the initiative's business plan. For the full text of the article, visit www.minneapolisfed.org/community/publications_papers/pub_display.cfm?id=3226.*

The State of Minnesota's Emerging Markets Homeownership Initiative (EMHI) seeks to boost homeownership rates among Minnesota's minority and immigrant households, or "emerging markets," as a step toward closing the large homeownership gap between those groups and the state's non-Hispanic white population.

Many of the implementation strategies in the *EMHI Business Plan*address general barriers to homeownership and should increase the number of emerging market households that become first-time homeowners. EMHI doesn't stop there, however. It also recognizes the need to sustain homeownership after initial purchase, in keeping with growing evidence that the cliché "once an owner, always an owner" is far from true, especially for minority and low-income households. In particular, the EMHI plan includes the following strategy:

> *Develop and implement a post-purchase services network to assure that emerging market homeowners have access to information and services pertaining to predatory lending and foreclosure prevention that will enhance their prospects for successful, sustainable homeownership.*

Recent research findings from the housing industry, in combination with a favorable climate in Minnesota, indicate the state is in a good position to use post-purchase support programs (PPSP) to pursue EMHI's goals by reducing the incidence of foreclosure and helping low-income households sustain homeownership.

Easing housing burdens; preventing foreclosure costs

Despite its many attractions and advantages, homeownership brings financial and maintenance burdens that can challenge many families. The burdens tend to be more demanding for families with low or moderate incomes and other socioeconomic disadvantages, and currently those disadvantages are more prevalent among emerging market households.

When the burdens become too heavy and families fail to meet their mortgage obligations, the costs can be substantial. For borrowers, foreclosure brings emotional distress and the double losses of home and personal wealth. For lenders, foreclosures can cost $50,000 or more, according to a recent study by researchers J. Michael Collins and Rochelle Nawrocki Gorey. [1/](1/) In addition, the public shares the losses associated with foreclosures. A study of foreclosures in Chicago found that in cases where a foreclosed property sits vacant for an extended period, direct municipal costs can reach tens of thousands of dollars. [2/](2/) Vacant properties can also depress property values in their neighborhoods.

PPSPs can help ease housing burdens by offering homeowners training on home maintenance or household budgeting. They may also offer counseling on emerging debt or mortgage payment issues, and, in some cases, financial assistance such as low-cost, short-term loans that can help a homeowner reinstate a defaulted mortgage and prevent foreclosure. (PPSPs encompass foreclosure prevention, which is discussed in the accompanying article by Sandy Gerber.)

PPSPs are often offered by nonprofit community organizations, with funding from financial institutions, foundations, governments, and individual contributors. Many lenders and local governments also offer PPSPs. Building on an existing network of Minnesota providers, EMHI's PPSP strategy is designed to hold down the incidence of foreclosures, including those resulting from predatory lending, as a way of boosting homeownership rates for emerging markets.

Effects of pre- and post-purchase help on foreclosures

While there is ample anecdotal evidence that post-purchase training programs make homeowners more likely to meet their mortgage obligations, few rigorous studies exist. However, housing researchers Abdighani Hirad and Peter M. Zorn make the case that quality pre-purchase training of homebuyers significantly reduces subsequent mortgage delinquencies. 3/ It seems plausible that post-purchase training could reinforce and extend these benefits, which provides a basis for including post-purchase training programs in EMHI's PPSP strategy. Nonetheless, EMHI participants should also plan a strategy for assessing the effectiveness of such training programs.

Even with effective pre- and post-purchase training, some households will fall behind in their mortgage payments. When that happens, post-purchase counseling and foreclosure assistance programs have the potential to prevent many delinquencies from turning into foreclosures. For example, counselors at the Twin Cities Mortgage Foreclosure Prevention Program, who have tracked counseling outcomes since 1991, consistently report that about half of the delinquencies they handle are known to be resolved without a foreclosure. 4/ The Homeownership Preservation Initiative (HOPI), a citywide program in Chicago, has reported 500 foreclosures prevented out of the 1,535 cases counseled through Neighborhood Housing Services of Chicago from April 2003 to March 2005. 5/ Another sign that counseling succeeds in reducing avoidable foreclosures is that lenders support it, both through their internal loss mitigation units and through financial and other support they provide to third-party counseling programs like HOPI.

Sustaining homeownership and closing gaps

EMHI is betting that PPSPs can significantly lower the incidence of foreclosure in Minnesota. Implicitly, it also assumes that PPSPs will help close the gap in homeownership rates between Minnesota's emerging markets and its non-Hispanic white population. Recent research suggests they might.

Minnesota's homeownership gaps are indeed large. According to the Minnesota Housing Finance Agency (MHFA), 77 percent of Minnesota's non-Hispanic white households were homeowners in 2000, compared to 32 percent of African American households, 49 percent of American Indian and Alaska Native households, 52 percent of Asian American households, and 43 percent of Hispanic households. The resulting homeownership gaps of up to 45 percentage points are larger than most corresponding national figures. The EMHI business plan and supporting documents discuss some of the factors behind these gaps. Whatever explains the gaps, EMHI's goal is to reduce them by boosting emerging market ownership rates.

Since minority households are less likely to become homeowners than non-Hispanic whites, partly due to lower incomes, housing programs that help low-income and minority households achieve first-time homeownership make sense as a strategy for reducing Minnesota's emerging markets homeownership gap. Such programs traditionally include information dissemination, enforcement of antidiscrimination laws, homebuyer education, downpayment assistance, repair of credit problems and other approaches.

However, recent studies confirm that households differ significantly not only in attaining homeownership, but also in sustaining it. Using data on a sample of households from 1976 to 1993, 6/ researcher Carolina Katz Reid found that 40 percent of renters who bought a home between 1976 and 1989 returned to renting at least once by 1993. 7/ The odds of exiting homeownership were higher for low-income households; 36 percent exited homeownership within two years, and 53 percent exited within five years. Katz Reid's research also showed that within each income group, minority households were more likely to exit homeownership in any given post-purchase year. Over 40 percent of low-income minority homebuyers were no longer owners after only two years, compared to less than 30 percent of low-income non-Hispanic white households.

Researchers Donald Haurin and Stuart Rosenthal reached similar conclusions based on a sample of individuals followed from youth (ages 14 to 21) in 1979 to middle age in 2000. 8/ Over the sample period, 63 percent of the African American individuals owned a home at some point, but only 34 percent still did as of the final year, 2000. The comparable figures for non-Hispanic whites were 88 and 69 percent. Although the eventual incidence of exits for first-time homeowners was roughly equal across racial and ethnic groups (45 percent left homeownership at some point), the total duration of homeownership differed. The study estimates that first-time homeownership for non-Hispanic whites typically lasted 16.1 years, while for African Americans it typically lasted just 9.5 years. On average and over time, differences in the duration of first-time homeownership result in significant homeownership gaps between minorities and non-Hispanic whites. Like Katz Reid, Haurin and Rosenthal also find that the odds of exiting homeownership are highest in the early post-purchase years, peaking at 10.5 percent in the first year for first-time buyers. They conclude, "policies that lengthen existing ownership spells also will raise the national ownership rate." 9/

Katz Reid, Haurin and Rosenthal all identify factors that increase the likelihood of a household exiting homeownership: low income; low education; low levels of general knowledge (as indicated by the Armed Forces Qualifying Test, a standardized test that measures general knowledge retained from elementary and high school); relative youth; being single, divorced or separated; and living in a central city or rural area. 10/ The research cited here supports the idea that if EMHI could target its PPSPs according to these risk factors, the programs would tend to reduce Minnesota's homeownership gaps.

A well-positioned state

Minnesota is in a good position to implement EMHI's PPSP strategy, for at least three reasons.

First, Minnesota is nationally recognized for the quality of its existing PPSPs. The Minnesota Housing Finance Agency coordinates the statewide Foreclosure Prevention and Assistance Program, which was recently featured in an analysis of U.S. foreclosure prevention programs. As part of the statewide effort, the Home Ownership Center (HOC), recently cited in a review of the "essential components" of model PPSPs, 11/ coordinates the Mortgage Foreclosure Prevention Program in the core cities of Minneapolis and St. Paul. Under this program, three agencies—the City of St. Paul, Twin Cities Habitat for Humanity (for South Minneapolis) and the Northside Residents Redevelopment Council (for North Minneapolis)—have provided foreclosure prevention counseling for over 10 years and, in the process, assembled one of the nation's best databases on counseling cases and outcomes. Based on this data, the Twin Cities-based Family Housing Fund (FHF) has sponsored innovative research on the effects of foreclosure prevention counseling.

Another key component of the statewide programs is the high-quality training and certification provided to Minnesota's foreclosure prevention counselors through the Minnesota Mortgage Foreclosure Prevention Association (MMFPA). Minnesota also has excellent models for post-purchase training programs, such as those offered by Neighborhood Housing Services of Minneapolis. In addition, the Twin Cities has an award-winning Don't Borrow Trouble campaign that offers guidance and referrals to help homebuyers avoid predatory lending and mortgage financing problems. Don't Borrow Trouble Minnesota, administered by FHF, has a strong coalition of over 60 partners, more than 20 of whom help fund the campaign, and a referral network of 14 housing organizations. Many other examples could be listed.

Second, Minnesota can take advantage of innovations that have emerged in other parts of the country. The review by Collins and Nawrocki Gorey provides several examples. One is the Pennsylvania Housing Finance Agency's Homeowners' Emergency Mortgage Assistance Program, which has over 20 years' experience in providing financial assistance to delinquent borrowers according to specified hardship and recovery criteria. In Chicago, the HOPI effort has promoted stronger working relationships among national mortgage lenders and servicers, local foreclosure prevention programs, and local governments. 12/

Lastly, EMHI provides a framework for building upon the existing strengths of Minnesota's PPSP network. The HOC has been selected as the lead convener for implementing EMHI's PPSP strategy. Assisting as primary conveners will be the FHF, the Greater Twin Cities United Way and MMFPA. Additional participants already enlisted include the Mortgage Association of Minnesota and the Federal Reserve Bank of Minneapolis. Details are available in the *EMHI Business Plan*at www.mhfa.state.mn.us/about/EMHI_Business_Plan.pdf. The HOC expects to convene the initial strategy implementation meetings in late 2005 or early 2006.

1/ J. Michael Collins and Rochelle Nawrocki Gorey, "Analyzing Elements of Leading Default-Intervention Programs," White Paper, Policy Lab Consulting Group, 2004, p. 2.

2/ Neighborhood Housing Services of Chicago, *The Chicago Home Ownership Preservation Initiative: A Learning Laboratory*, 2005, p. 13–14.

3/ Abdighani Hirad and Peter M. Zorn, "A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," *Low-Income Homeownership Working Paper Series*, Harvard University's Joint Center for Housing Studies, August 2001.

4/ Minnesota Mortgage Foreclosure Prevention Association, *2003 Annual Report*, p. 3.

5/ Neighborhood Housing Services of Chicago, p. 4–5.

6/ The Panel Study of Income Dynamics is a longitudinal study of a representative sample of U.S. individuals (men, women, and children) and their family units. The study is conducted at the Survey Research Center at the University of Michigan’s Institute for Social Research.

7/ Carolina Katz Reid, "Achieving the American Dream? A Longitudinal Analysis of the Homeownership Experiences of Low-Income Households," Center for Studies in Demography and Ecology, University of Washington, *Working Paper 04-04*, April 2004, p. 20.

8/ Donald Haurin and Stuart Rosenthal, *The Sustainability of Homeownership: Factors Affecting the Duration of Homeownership and Rental Spells*, Office of Policy Development and Research, U.S. Department of Housing and Urban Development, December 2004.

9/ *Ibid.*, p. v.

10/ Reid, p. 21–25, Haurin and Rosenthal, p. vi–viii.

11/ Christi Baker, “Report 3: Essential Components of Post-Purchase Program Models” (based on the work of Lucy S. Gorham, Roberto Quercia and William Rohe of the Center for Urban and Regional Studies at the University of North Carolina at Chapel Hill), Fannie Mae Foundation, July 2004.

12/ "Neighborhood Housing Services of Chicago Home Ownership Preservation Initiative," *Profitwise News and Views*, Federal Reserve Bank of Chicago, May 2004.

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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.

Treasury, Fed launch Go Direct campaign

November 1, 2005

September 27 marked the formal launch of Go Direct, a national campaign by the U.S. Department of the Treasury (Treasury) and the Federal Reserve System to encourage Americans to sign up for direct deposit of federal benefits payments. The campaign will use a variety of media to spread the word that direct deposit of Social Security, Supplementary Security Income and other federal payments can save taxpayers millions of dollars a year and is safer, faster and more efficient than mailing checks.

Treasury officials kicked off the campaign with a press conference in Washington, D.C.; simultaneous launch events in Philadelphia, Los Angeles, Dallas, Chicago and Cleveland; and a media tour of more than 20 morning television shows and 15 drive-time radio programs nationwide. A Go Direct television commercial began airing in some markets in October. The ad, which will run every month before Social Security payment days, encourages benefit recipients to sign up for direct deposit by visiting the Go Direct Web site at www.godirect.org or contacting the Go Direct Call Center, hosted by the Federal Reserve Bank of Dallas, at (800) 333-1795.

Supporting partners in the Go Direct campaign include AARP, Citibank, Chase/Bank One, U.S. Bank, United Way, American Bankers Association, National Association of Federal Credit Unions, Credit Union National Association and National Community Reinvestment Coalition.

Policy summit highlight: CRA changes create new bank category

Changes to the Community Reinvestment Act were a focus of a recent policy summit sponsored by Local Initiatives Support Corporation and the Federal Reserve Bank of Minneapolis.

November 1, 2005

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At a recent policy summit sponsored by Local Initiatives Support Corporation and The Federal Reserve Bank of Minneapolis, representatives of many community development organizations gathered to learn about the newest changes affecting the industry.

Summit highlights included an analysis by Benson "Buzz" Roberts, senior vice president for policy at National LISC, of how proposed changes in the funding and administration of federal programs could impact low-and moderate-income communities; and an overview of major revisions to the Home Mortgage Disclosure Act by Jane Gell, managing counsel for industry and consumer issues at the Board of Governors of the Federal Reserve System. Comments and reactions were provided by a panel of local lending and community development leaders that included Dorothy Bridges, president and CEO of Franklin Bank; Elizabeth Ryan, director of housing policy in the City of Minneapolis Community Planning and Economic Development Department; and Hussein Samatar, executive director of the African Development Center.

In an additional presentation, Federal Reserve Bank of Minneapolis Vice President Kinney Misterek reviewed changes to provisions of the Community Reinvestment Act, or CRA. These changes were noted in the last *Community Dividend*and are discussed in more detail here.

The CRA was enacted in 1977 with a goal of encouraging financial institutions to meet the credit needs of their local communities, focusing specifically on low- and moderate-income (LMI) neighborhoods. The act underwent a major revision in 1995. To adapt to changes in the financial industry, the three federal banking agencies (the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation) have adopted new revisions to the CRA that took effect September 1, 2005.

The federal banking agencies apply performance criteria to assess how banks address the community credit and development needs of LMI areas. Under the previous CRA rules, small banks, or those banks with assets of up to $250 million, had to meet a five-pronged lending test. Large banks, or those banks with assets of $250 million or more, had to meet lending, investment and service tests. The latest CRA revisions leave the performance criteria for small and large banks essentially unchanged and expand the small bank category to create *intermediate small banks,*or those banks with assets of $250 million to $1 billion. The purpose of this change is to reduce the regulatory burden on midsized banks that previously had to comply with the rules and regulations for large banks.

Banks that fall in this new category are no longer required to collect and report CRA data for small business, small farm and community development loans. Under the new rules, intermediate small banks must meet two performance criteria: the existing, five-part lending test that applies to small banks; and a community development test, which combines community development loans, investments and services into one test. As one part of the lending test, intermediate small banks will be assessed on actions taken in response to consumer complaints.

Another major CRA revision discussed at the policy summit is the new definition of *community development.*The definition was expanded to include certain activities located in distressed nonmetropolitan middle-income geographies, underserved nonmetropolitan middle-income geographies, and designated disaster areas. The purpose of this revision was to expand the number of activities in rural communities that are eligible for CRA credit, given the overall lack of eligible LMI census tracts in these areas.

In order for areas to be classified as *distressed,*they must meet certain population-loss criteria, have poverty rates of 20 percent or greater, or have an unemployment rate that is at least 1.5 times the national rate. For areas to be classified as *underserved,*they must meet criteria related to population, density and location. The areas must be small enough and far enough away from a population center that they would likely have limited resources available for financing essential community needs, such as infrastructure for public safety and education. A listing of areas designated as either distressed or underserved is posted on the Federal Financial Institutions Examination Council's Web site at www.ffiec.gov and will be updated annually. *Designated disaster areas*are classified as such by either the federal or state government.

Additional information about the CRA revisions is available at www.federalreserve.gov/boarddocs/press/bcreg/2005/20050719/.

Four projects kick off "green" initiative in Minnesota

November 1, 2005

The Greater Minnesota Housing Fund, Family Housing Fund and The Enterprise Foundation/Enterprise Social Investment Corporation (Enterprise) recently announced the launch of the Minnesota Green Communities Initiative (MGCI), a collaboration to create energy-efficient, environmentally friendly affordable housing throughout the state. The three organizations have committed $12 million in grants and other funds for the 2005-2007 construction of four demonstration projects that will provide a total of 180 new housing units. Most of the units will be reserved for low- or moderate-income people.

The four demonstration projects will incorporate features that conserve resources and promote health, such as indoor air quality systems, storm-water runoff controls, and high-efficiency heating and cooling systems. The projects are New San Marco Apartments in Duluth, developed by Center City Housing Corporation; Viking Terrace Apartments in Worthington, developed by Southwest Minnesota Housing Partnership; Ripley Gardens in Minneapolis, developed by Central Community Housing Trust (CCHT); and The Wellstone, also in Minneapolis, developed by CCHT and Hope Community, Inc.

MGCI is a partner program to Green Communities (GC), a national, five-year, $555 million initiative to build at least 8,500 environmentally healthy homes for low-income families. GC provides grants, financing and tax credit equity for affordable housing developments that emphasize smart siting, resource conservation, energy efficiency and other criteria. The national initiative, created by Enterprise and the Natural Resources Defense Council, has partner programs in several states. Two of those states—Minnesota and Michigan—lie wholly or partly in the Ninth District. The Michigan Green Communities initiative is also under way, with $70 million in grants and financing pledged for the construction of 500 housing units, and is accepting applications for funding. Its creators are Enterprise, the Michigan State Housing Development Authority and the Great Lakes Capital Fund.

For more information on the GC initiative, visit www.greencommunitiesonline.org.

New St. Paul housing program announced

November 1, 2005

A new homeownership program for the East Side of St. Paul will help build family assets and strengthen the city, according to its creators. The initiative will serve the racially diverse Payne/Phalen and Dayton's Bluff neighborhoods, which are home to a variety of immigrant communities. It is designed to complement the State of Minnesota's Emerging Markets Homeownership Initiative, which seeks to increase homeownership rates for the state's minority and immigrant populations.

The East Side initiative will promote culturally specific homeownership programs, provide new and prospective homebuyers with pre- and post-purchase counseling, and create partnerships with employers to promote savings programs. It will also support home construction and rehabilitation, with the specific five-year goals of helping 750 families achieve or sustain homeownership and assisting in the production of 250 owner-occupied housing units.

The initiative is sponsored by Payne/Lake Community Partners, a program dedicated to rejuvenating three commercial corridors in the Twin Cities, and supported by nearly 20 funders and other partners, including the John S. and James L. Knight Foundation, the Minnesota Housing Finance Agency, The McKnight Foundation and the City of St. Paul.