FEDERAL RESERVE BANK OF MINNEAPOLIS

Tingerthal joins Consumer Advisory Council

May 1, 2009

Mary Tingerthal, president of Capital Markets Companies for the Housing Partnership Network (HPN), was recently named one of ten new members of the Federal Reserve's Consumer Advisory Council (CAC). The CAC, which was established in 1976, meets three times a year to advise the Board of Governors of the Federal Reserve System (Board) on matters related to consumers, communities, and the financial services industry. Members are appointed by the Board and serve staggered, three-year terms.

Tingerthal oversees several HPN-operated entities, including a community development financial institution, a financing partnership for charter schools, and a venture capital company. In addition, she has had lead responsibility for the National Community Stabilization Trust, an entity that HPN, Enterprise Community Partners, Local Initiatives Support Corporation, and NeighborWorks® America created to facilitate the purchase and reuse of foreclosed, bank-owned properties. Prior to joining HPN, Tingerthal served as senior vice president of capital markets for the Community Reinvestment Fund. Her other past positions include managing director of home equity products for GMAC Residential Funding Corporation; president and chief executive officer of the National Equity Fund, Inc.; and deputy director of housing for the City of St. Paul.

Tingerthal joins Kevin Rhein as one of two CAC members from the Ninth Federal Reserve District. Rhein, who was appointed to the council in 2008, is the division president of Wells Fargo Card Services in Minneapolis.

Homeownership gaps among Indian reservations prove puzzling

An analysis of some persistent gaps in homeownership rates among American Indian reservations in the Ninth Federal Reserve District.

May 1, 2009

AUTHORS

Richard M. Todd

Former Vice President and Advisor to the CICD

Federico Burlon

Community Affairs Intern

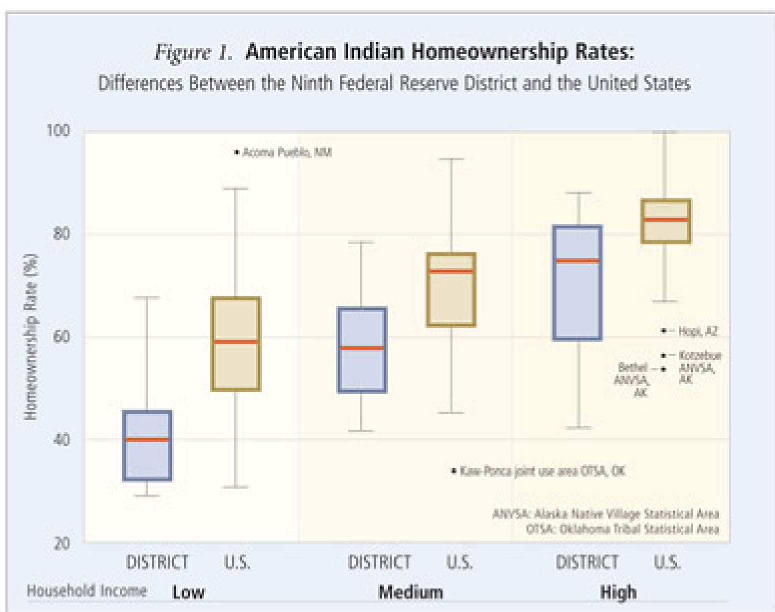
The homeownership rate of American Indians is low relative to that of whites in the U.S. According to the U.S. Census Bureau's 2006 American Community Survey, 56 percent of American Indian households were homeowners, compared to 71 percent of white households. In rural areas, which encompass American Indian reservations, homeownership rates tend to be higher, but the disparity persists. In 2006, the homeownership rate of 62 percent for rural American Indian households was 13 percentage points less than the rate for rural white households.

The American Indian homeownership gap with respect to whites is thought to reflect a number of economic, institutional, and demographic differences. For example, a recent report from the Federal Reserve and the Brookings Institution notes that homeownership on Montana's Blackfeet reservation is constrained by low incomes, weak credit histories, a lack of mortgage financing, and the challenges of real estate lending on tribal trust lands.[1/] This report also notes that the Blackfeet reservation's housing stock is "generally substandard," raising questions about whether a proper accounting for housing quality would show even wider gaps between American Indian and white homeownership. A better understanding of American Indian homeownership and the factors that influence it could lead to more effective policies to close the American Indian homeownership gap. (For more on this thought, see "A note about homeownership" below.)

This article takes a small step in that direction by documenting the fact that American Indian homeownership rates vary significantly among American Indian reservations, including those in the Ninth Federal Reserve District (District). Furthermore, large regional differences remain, even when standard measures of the two key factors stressed in the Blackfeet study—household income and housing quality—are accounted for. Although it is beyond the scope of this article, further thinking about why American Indian homeownership is high on some reservations and low on others has the potential to improve our understanding of the factors and policies that determine American Indian homeownership rates.[2/]

Gaps between the District and the nation

The large District reservations analyzed here have a lower rate of American Indian homeownership (53 percent overall) than their counterparts in the rest of the country (71 percent). (See the sidebar below for details on the reservations and data analyzed.) Figure 1 (see below) shows that income differences explain some, but not all, of this 18 percentage-point gap. For both areas (District and rest of U.S.) and three income categories, the rectangular boxes in Figure 1 show the typical range of homeownership rates among reservations.[3/] For example, in the low-income category, typical homeownership rates for American Indian households on District reservations range from 32 to 46 percent, whereas the rest of the country shows a typical range of 50 to 66 percent. The horizontal line inside each box represents the median reservation, or the one that falls in the middle when all the area's reservations are ranked according to their homeownership rates. In the low-income category, the median District reservation has a homeownership rate of 40 percent, compared to a median of 58 percent among large reservations in the rest of the country. Thus, among low-income American Indian reservation households, the gap between the District and the rest of the country is the same as the overall gap of 18 percentage points.



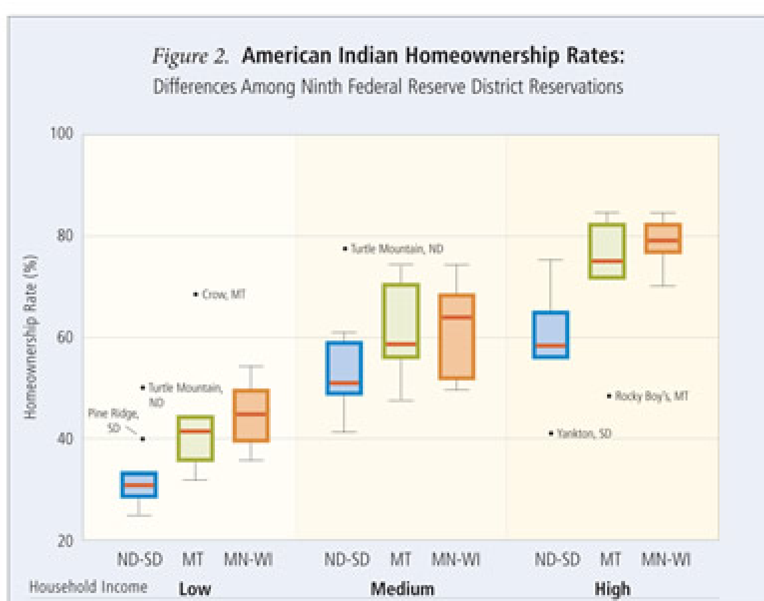
Click on chart to view larger image.

The percentage of households owning homes rises with income, as shown by the increasingly high position of the boxes from left to right for each geography. In addition, the gap between District and other reservations narrows as incomes rise, as indicated by the greater overlap of the typical range of homeownership rates. Based on the median reservations, the gap narrows from 18 percentage points for low-income households to 15 points for medium-income households and just 8 points for high-income households. However, the gap never disappears. Thus, we see that although household income is an important influence on American Indian homeownership, it fails to fully explain the lower rate of American Indian homeownership on District reservations.

The thin lines extending above and below most of the boxes cover reservations that are outside the typical range for their area and income category, but not exceptionally so.[4/] A few reservations have even more extreme homeownership rates, and these outliers are individually represented by having their names displayed at the heights corresponding to their homeownership rates. Generally, for each income category, homeownership rates that are atypically high by District standards would be considered merely typical, or just barely higher than typical, by national standards. District reservations whose rates are atypically low within a given income category have lower homeownership rates than all but a few national outliers. Thus, the American Indian homeownership gap between large District reservations and other large reservations is still apparent when each area's less typical reservations are considered. Understanding why American Indian homeownership on large District reservations is lower than in the rest of the country, even after income differences are taken into account, is both a challenge and a potential source of insight.

Gaps within the District

Our understanding is further challenged by the fact that American Indian homeownership rates differ significantly among the large reservations within the District. For the reservations analyzed here, American Indian homeownership rates, relative to income, tend to be lowest in North Dakota and South Dakota. This is shown in Figure 2 (see below), which takes the same form as Figure 1, but covers three areas within the District—North Dakota-South Dakota (ND-SD), Montana (MT), and Minnesota-Wisconsin (MN-WI). Within each area, the tendency for homeownership to rise with income is again evident. Within each income group, however, the typical ranges of American Indian homeownership rates are similar for MN-WI and MT reservations but lower for ND-SD reservations. The gap between the Dakotas and the other areas is especially distinct for the low- and high-income brackets.



Click on chart to view larger image.

For each income group, reservation homeownership rates also vary widely within each of the three District areas. For example, in the low-income bracket, American Indian homeownership rates for large reservations in the Dakotas cluster around a median of 31 percent, but there are two outliers—Pine Ridge and Turtle Mountain—with substantially higher rates. Turtle Mountain's rate is well above average for low-income American Indian households in either MT or MN-WI (although it is still well below the 73 percent rate for Montana's Crow reservation). In the medium-income category, Turtle Mountain's American Indian homeownership rate of 78 percent exceeds all District reservations analyzed, and its 75 percent rate for high-income households also ranks high. The high rate of American Indian homeownership across income groups on Turtle Mountain raises questions about why this reservation differs from its peers in ND-SD.

Can housing quality explain the gaps?

As noted above, the quality of housing on American Indian reservations is sometimes low. This raises the possibility that focusing solely on reservation homeownership rates might be misleading. For example, suppose a reservation has a high homeownership rate but also has exceptionally low-quality or crowded houses. In that case, we might view its apparent homeownership success as less significant than if there were no offsetting quality gap. In this section, we assess the possibility and find only limited evidence of it.

Good data on all aspects of reservation housing quality are not readily available, but Census 2000 provides standard (yet imperfect) measures of some dimensions of quality. There are no area-wide housing quality differences in these data that are big enough to account for the regional differences in homeownership rates shown in Figures 1 and 2. However, when we look at individual reservations within the District, we find a few cases where the incidence of mobile home ownership, substandard kitchen and plumbing facilities, or older or crowded homes is unusually high on reservations with relatively high American Indian homeownership rates.

Although most mobile homes manufactured today meet quality standards on par with those of site-built homes, many older mobile homes are less durable. For this reason, census data on mobile homes—and especially mobile homes subjected to the harsh climates typical of District reservations—are considered a potential indicator of low-quality housing. Nonetheless, mobile home ownership explains only a few of the disparities in Figures 1 and 2. Both nationally and within the District, 23 percent of homes owned by American Indian households on reservations are manufactured units, making mobile homes a nonfactor with respect to how the District's American Indian homeownership rate compares to the national rate. Within the District, American Indian ownership of mobile homes is highest on ND-SD reservations, where overall American Indian homeownership rates are low, so it doesn't explain away the higher American Indian homeownership rates on MT or MN-WI reservations. However, it may partly explain why American Indian homeownership is higher on the Pine Ridge and Turtle Mountain reservations than on the reservations in the Dakotas, as about 40 percent of homeowners on these two reservations own mobile homes—the highest rate within the District. Turtle Mountain's American Indian homeownership rate is still fairly high, even considering the higher usage of mobile homes there.

The remaining measures of housing quality show only a few notable differences across reservations. The age of a home is considered a quality indicator because structures deteriorate over time. Among American Indian homeowners on reservations, the distribution of homes by decade built is similar in the District and the nation. The same is generally true when comparing reservations within the District, except that three Montana reservations (Rocky Boy's, Fort Belknap, and Northern Cheyenne) have an unusually high percentage of homes built in the 1970s and an unusually low percentage built in the 1990s. Plumbing and kitchen facilities are present in 94 to 100 percent of homes on most reservations in the District, slightly above average for reservations nationally. The one exception is the Pine Ridge reservation in South Dakota, where a lower percentage of homes with plumbing (78 percent) or kitchen facilities (84 percent) partly offsets its relatively high (for the Dakotas) homeownership rate among low-income households.

Crowding, or the number of persons per room, is generally higher in the American Indian community than in the U.S. as a whole. To the extent that a reservation's houses are unusually small, or to the extent that it is more common for multiple families on a reservation to crowd together in a single home, crowding could be a form of low housing quality that might lead us to discount high homeownership rates on some reservations. However, among American Indian households on large District reservations, the number of persons per room is comparable to that of reservations nationally. Differences are generally small within the District, too, except that on three District reservations, the percentage of owner-occupied homes with more than one person per room is well above the national reservation average of 18 percent. These three reservations are Pine Ridge (32 percent), Rocky Boy's (29 percent), and Crow (26 percent). Further study would be needed to determine whether crowding might offset the relatively high rate of homeownership among low-income American Indians on the Pine Ridge and Crow reservations.

Further research warranted

As we have seen, American Indian homeownership rates on large District reservations tend to be lower than on large reservations in the rest of the country, even after taking account of differences in income. Within the District, homeownership rates by income group are lowest in North Dakota and South Dakota. Housing quality differences between reservations do not seem to explain away these regional differences.

However, homeownership rates for American Indians on reservations vary widely, even within a specific region and among households with similar incomes. Homeownership rates are affected by many nonincome factors, including personal factors like net worth, access to credit, age, and marital status, as well as environmental factors such as the prevalence of trust land and the relative costs of renting vs. owning. In preliminary analyses, some of these factors were found to be statistically associated with the differences in American Indian homeownership rates shown in Figure 2. Still, significant differences remain that have yet to be explained. The large variations across reservations with respect to American Indian homeownership rates are a challenge to social scientists and policymakers and appear to be an appropriate topic for further discussion and research.

Federico Burlon, a student at Macalester College, completed the research for this article while serving as a Community Affairs intern at the Federal Reserve Bank of Minneapolis in 2008. He is grateful for the guidance of Professor Raymond Robertson at Macalester, who served as his faculty supervisor during the internship.

A note about homeownership

We do not mean to suggest in this article that homeownership is the best housing arrangement for all families. (For a recent critique of policies that promote homeownership, see Stephen Slivinski's article "House Bias: The Economic Consequences of Subsidizing Homeownership" in the Fall 2008 edition of the Federal Reserve Bank of Richmond's *Region Focus* magazine, available at www.richmondfed.org.) However, large ethnic or racial gaps in homeownership rates have been of concern to policymakers because they may reflect broader economic inequalities or discrimination. Better understanding of these gaps and their causes can help policymakers decide what kinds of programs, if any, may be appropriate to narrow them.

"American Indian" vs. "Native American"

Views within the indigenous community differ regarding whether "American Indian" or "Native American" is the preferred term. We use "American Indian" in this article, for consistency with the terminology used by our main data source, the U.S. Census Bureau.

A framework for comparing reservation homeownership rates

A note from the authors

Our article uses Census 2000 data to analyze American Indian homeownership rates on American Indian reservations while controlling for household income. Although these data are nearly ten years old and do not always align with other federal and tribal figures on homeownership, their level of detail and nationwide scope are unavailable elsewhere and provide a useful starting point for comparisons. We identify American Indian households as those whose heads reported their race as American Indian only, but similar results hold with a broader definition.

To control for household income, we report homeownership rates by three income categories. To obtain enough observations in each category, we define low-income American Indian households as those with incomes less than $20,000 (in 1999 dollars). Medium-income American Indian households are defined as those with incomes between $20,000 and $49,999. (By comparison, in 1999, the median household income for the whole U.S. was $42,000 and 22 percent of households had incomes less than $20,000.) The remaining American Indian households are deemed high-income. (We have obtained results similar to those reported here using more detailed categories.) On reservations with small populations, the number of households in the medium- and high-income categories is often too small to compute a meaningful homeownership rate. Therefore, reservations with fewer than 500 households are omitted, which cuts the number of District reservations analyzed from 41 to 24 and eliminates all reservations located in the Upper Peninsula of Michigan.

Because the pattern of reservation homeownership was similar in North Dakota and South Dakota, and because the large Standing Rock reservation straddles their border, the reservations in these two states are grouped together for some purposes. Similar considerations led us to also group the reservations in Minnesota and Wisconsin. Thus, we analyze homeownership rates on large District reservations in five states, divided for some purposes into the following three groups: 1) North and South Dakota, 2) Montana, and 3) Minnesota and Wisconsin. We also compare these large District reservations to other large reservations (those with 500 or more American Indian households) nationally.

1/ *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.*, October 2008, pp. 71–72. Available at www.frbsf.org/cpreport.

2/ To learn how a similar approach was used to study the factors affecting homeownership in the Hmong-American community, see *Accounting for Regional Migration Patterns and Homeownership Disparities in the Hmong-American Refugee Community*, 1980–2000, by Richard M. Todd and Michael Grover, Federal Reserve Bank of Minneapolis, October 2008.

3/ Specifically, for each income category and geography, 25 percent of the reservations analyzed have homeownership rates lower than the bottom end of the box, and 25 percent have homeownership rates higher than the top end of the box. The length of the box, known as the interquartile range (IQR), thus shows the range of typical homeownership rates within each category.

4/ These lines, known as "whiskers," extend as far as one and a half times the IQR. The whisker will be shorter than that if the last reservation above or below the box is less than one and a half IQRs from the box. In that case, the whisker stops at the reservation that is most distant from the box.

Newly released guides explain the financial crisis

May 1, 2009

Junior Achievement Worldwide, a nonprofit organization dedicated to teaching the concepts of work readiness, entrepreneurship, and financial literacy to young people, has released a pair of guides that explain the causes and effects of the current financial crisis. The guides, both titled *Understanding the Financial Crisis: Origins and Impact*, are designed to inform students, parents, and educators about how the crisis evolved and what lessons may be drawn from it. The two guides offer similar content, but one version is intended for high school students and the other is intended for use in adult education programs. To download the guides, visit jaum.org.

Minneapolis Fed offers class supplements for economics educators

May 1, 2009

The Federal Reserve Bank of Minneapolis has created a set of class supplements to help high school teachers meet national standards for economics education. Using articles from Minneapolis Fed publications as a basis for discussion, the supplements address topics that correspond to one or more of EconomicsAmerica's 20 national standards for teaching economics. *Community Dividend* articles about concentrated poverty, credit scoring, the Earned Income Tax Credit, and African American entrepreneurs are featured under several of the topic categories. To access the supplements, visit the "Teaching Aids ... Articles and Class Supplements" page on the Community & Education tab at www.minneapolisfed.org.

Financial literacy especially low among Native youth, survey finds

May 1, 2009

The financial literacy of Native high school seniors is even lower than that of their non-Native peers, according to a report issued by First Nations Oweesta Corporation (Oweesta).

The report, titled *Deepening Our Understanding of the Financial Education of Native Youth: An In-Depth Look at Native Students in Montana, New Mexico, and South Dakota*, is based on findings from a survey of 317 students at high Native-enrollment high schools in three states. Nearly 230 of the respondents were Native. They made up the largest-ever sample of Native high school students to participate in a survey of financial knowledge.

The survey instrument was based closely on a nationally administered, biennial survey conducted by the Jump$tart Coalition for Personal Financial Literacy (Jump$tart). It consisted of 29 multiple-choice questions about income, money management, savings, spending, and credit, plus a series of 19 questions about students' socioeconomic backgrounds, academic interests, and financial habits.

The survey findings reveal a significant gap in financial knowledge between the Native and non-Native respondents. The average survey scores for both groups correspond to a failing grade of F on a typical academic scale, but the Native students' scores are especially low. On average, Native students answered 39 percent of the multiple-choice questions correctly, compared to an average score of 46 percent for non-Natives. More than 90 percent of Native students received a failing score, compared to 78 percent of non-Natives, and Natives scored lower across all domains of financial literacy measured in the survey. The biggest gaps were in the areas of income and spending, where Native students' scores in both categories were just over 80 percent as high as non-Native students' scores.

Demographic data captured in the survey reveal additional gaps. Half of Native students surveyed did not have a bank account, while only 24 percent of non-Natives were unbanked. Slightly more than half of Native respondents had parents with some college experience, compared to 73 percent of non-Natives. Native respondents were less likely than their non-Native peers to have a driver's license, have taken a class in school that addressed money management or personal finance, or have ever been formally employed.

In addition to Oweesta and Jump$tart, the survey's sponsoring partners were the University of South Dakota Government Research Bureau and the Harvard Project on American Indian Economic Development. The National Council on Economic Education provided financial support. Representatives of Junior Achievement of New Mexico, the Hutchinson County [S.D.] Extension Service, and the Helena Branch of the Federal Reserve Bank of Minneapolis led the data collection efforts in their respective states.

To read the report, visit www.oweesta.org/youthreport2008.

Land banks as a neighborhood recovery strategy: A conversation with Dan Kildee of Michigan's Genesee County Land Bank

Community Dividend speaks with Dan Kildee, Genesee County treasurer and board chair of the Genesee County Land Bank, to learn more about how land banking is contributing to redevelopment in Flint, Mich.

May 1, 2009

AUTHOR

Michael Grover

Assistant Vice President, Community Development and Engagement

Land banks are tools by which local governments can acquire and hold surplus property and return it to the real estate market. Land banks often acquire properties through tax foreclosure, wherein owners lose their properties due to nonpayment of property taxes. Once it acquires a property, a land bank eliminates all liens and past claims on the property and clears the title, effectively preparing the property for sale to a new owner.

Interest in land banking has grown recently, especially as the widening and deepening foreclosure crisis has resulted in a large inventory of vacant and abandoned homes. In the Twin Cities region, which ranks seventeenth nationally in the number of bank-owned properties,[1/] several municipalities are considering land banking as a strategy to aid in the recovery of some of their hardest-hit neighborhoods. To date, land banking organizations have been established in a small number of metropolitan areas, such as St. Louis; Cleveland; Louisville, Ky.; Atlanta; and Flint, Mich. Of these, the Genesee County Land Bank (GCLB) in Flint, which was founded in 2002, is often recognized as the most pioneering entity.

In 1999, the State of Michigan made reforms to its tax foreclosure laws in order to streamline the acquisition and resale of tax-delinquent properties. For example, the reforms allowed counties—not just the state—to become the owners of properties that are tax-delinquent. The reforms reduced the delinquency period, during which no action could be taken on the properties, from 46 months to 25 months. In addition, the 1999 reforms enabled counties to identify some properties as "abandoned property for accelerated forfeiture," which reduced the tax foreclosure process by an additional year.[2/]

Since its inception, the GCLB has applied the tools created under the reformed laws to stabilize neighborhoods and revitalize the city of Flint and surrounding areas. The land bank has facilitated the reuse of more than 4,000 residential, commercial, and industrial properties acquired through the tax foreclosure process. GCLB's work is accomplished through partnerships with public, private, and nonprofit entities. One factor that makes GCLB unique, and is another result of the 1999 reforms, is that the land bank receives much of its revenue from the penalties and delinquent tax payments made each year in Genesee County. Prior to the 1999 reforms, these revenue streams were often purchased by investors, who profited from the penalties and tax payments paid by the property owners.[3/] Other sources of funding for the GCLB include sales and rental programs, grants, loans, and bonds.

Community Dividend spoke with Dan Kildee, Genesee County treasurer and board chair of the GCLB, to learn more about the land bank and the challenges involved in redeveloping the Flint area.

Community Dividend: Set the scene for us. Why was there a need for a land bank in Flint and the surrounding county?

Dan Kildee: Flint has a strong connection to General Motors and once was the center of the automotive universe. As of the late 1970s, there were 79,000 people in the area working for GM. What happened, along with typical urban sprawl and urban blight, was a meltdown in our economy. We lost 90 percent of those GM jobs over a 30-year period. With the jobs gone, the city of Flint was abandoned pretty quickly. We lost about 40 percent of the population between 1970 and 2000 and ended up with a significant oversupply of substandard, dilapidated, abandoned houses.

CD: What were Flint's neighborhoods like before the meltdown?

DK: They were great neighborhoods up through the 1960s and 1970s—diverse, high-density, fully functioning. Some of these neighborhoods only took half a decade to go from being great places to being essentially wasteland. To me, that demonstrates the risk to neighborhoods when blight is allowed to spread unchecked like a contagious disease. Particularly in communities like Flint that have relatively weak market demand in the first place, neighborhoods are at great risk. Just a sprinkling of vacant properties can quickly lead to wholesale abandonment. That's why I think the whole situation provides great lessons for communities that are struggling with the current mortgage crisis.

CD: What barriers did you face in getting the land bank off the ground?

DK: The initial barrier was state law. We had a tax foreclosure system designed for the nineteenth century. It was rooted in the idea that somehow the market will magically take care of the neighborhoods and the houses and restore them to productive use. And, of course, that wasn't the case. So the first big hurdle was to persuade the legislature, the political leadership, and the community that there was a legitimate government role in this and that we should step up to it. Beyond that, the really big hurdles are market issues. We don't have a lot of opposition to our initiative, but we're up against dire market conditions.

CD: How did the county deal with vacant and abandoned properties before the state law on foreclosures was changed and the land bank got started?

DK: The approach was similar to what most states have in place right now. It was essentially privatized tax sales, where the properties go through abandonment and the government's first interaction with them is through the collection of delinquent taxes. Before we came along in Michigan, the government would either auction title to the properties in very speculative auctions or sell the receivables to private investors in the form of a tax lien sale.

It's an approach that generally produces negative outcomes. If you treat land as a disposable commodity, if you price and sell property as if it's junk, then purchasers will treat the property like it's junk. If somebody can buy an abandoned house in Flint for a few hundred dollars of back taxes and rent it out for a few hundred dollars a month, there's no incentive for them to invest in any improvements to the property.

CD: What was your main focus in designing the land bank?

DK: I went at this with the idea that it had to be sustainable. I started by looking at the economics of the tax foreclosure and tax collection system and found that people were making money on the process. For a modest sum, speculators or tax lien purchasers could turn their investment into a fairly significant return. Rather than just focusing on a land assembly mechanism, I reengineered the process as an economic model that delivers a sustainable revenue stream. I replaced the tax lien speculators with me, the county treasurer. The delinquent tax revenue we receive is dedicated to the cleanup and improvement of the foreclosed properties. In short, that means we get title to all of these abandoned properties, but we also get a relatively significant amount of revenue. I generate between $1.5 million and $2 million a year in delinquent tax fees that used to go to speculators.

To those who consider our work innovative, I'd say the primary innovation is not that we figured out how to create a land bank authority, but that we figured out a way to connect the economics of tax foreclosure and tax collection to the responsibilities of property management and disposition.

CD: The GCLB has a number of programs in addition to its core property acquisition function. Why was there a need to add those programs?

DK: We developed those programs because we have a relatively weak nonprofit sector. When I conceptualized the land bank, I thought we'd simply assemble land and put it out on the real estate market, and then good things would happen with it. My calculations didn't acknowledge that since our nonprofit sector is weak, good things wouldn't happen without further intervention from us. So we've extended ourselves and, to a degree, we've adopted the role of a community development corporation.

We do a number of things in addition to property acquisition. For example, we sometimes engage in catalytic development activities. If we think we can make something happen on a piece of property, but can't find a private partner to do it, we'll go ahead and do new development. Also, if we can't sell the delinquent properties we get, we "clean" them through rehab or demolition. After a demolition, we maintain the lot. We make sure that instead of looking like part of an abandoned landscape, it actually takes on some natural beauty and becomes integrated into a lower-density neighborhood. We call that program Clean and Green. We do a significant amount of property maintenance by partnering with neighborhood organizations.

What these programs have helped us understand is that a land bank's role is not just to hold property, but to provide a set of pathways to bring properties back to public use. Rather than putting all of the properties on a single path—the public auction—we provide multiple paths to increase the likelihood of a positive outcome.

CD: A recent piece of federal legislation called the Neighborhood Stabilization Program, or NSP, encourages and funds land banking activities. What advice do you have for localities that are considering establishing land banks?

DK: First, don't create a land bank just because you can get NSP money. Think about the whole range of programs and the whole range of functions that a land bank could engage in, and don't just do it for NSP funds. Second, examine the entire framework of how the government interacts with weak-market properties. Look at the whole range of governmental systems, including things like code enforcement, and attempt to put together an initiative that is beyond the life of this crisis that we are in, beyond the NSP funding. Finally, create optimistic, but reasonable, expectations for the land bank, given the market conditions in your community.

CD: You seem to be suggesting that land banking needs to be customized to the community, depending on local conditions.

DK: Definitely. In our case, we developed a model to deal with weak market conditions and weak nonprofit capacity. The land banks we've created elsewhere have a different purpose and a different range of programs based on the local conditions. For example, we helped form a land bank authority in Traverse City, a resort community in northern Michigan that has a strong, growing market. The land bank there is used as a tool to support work force housing. We helped Little Rock, Ark., develop a land bank to focus on targeted neighborhood development goals, such as the Central High School area. There are different ways a community can customize this concept to address its particular challenges.

CD: Where does the GCLB go from here?

DK: We've been operational for seven years now and we continue to evolve. My hope is that more and more of the development work we do will be picked up by private investors. We had to do our first few big deals all by ourselves. Since that time, we've been able to improve the market enough so that now private developers are stepping up.

CD: In your opinion, how has the land bank changed Genesee County and Flint?

DK: Specifically, it's allowed us to be a catalyst for development that creates a more sustainable community. It allows us as the landowner to pursue the kind of sustainable land-use policies that, typically, only the government can impose on other owners. Also, when we create open, green lots or community gardens in a neighborhood, the value of the surrounding lots goes up, and their equity may be restored. We take empty houses off the tax rolls and out of the marketplace and have a positive effect on property values. A recent Michigan State University study supports that conclusion.[4/]

In the abstract, I think the land bank has led to a feeling of optimism in the community. We've found a good way to manage our land, so that just because we're becoming smaller doesn't mean we have to become a less desirable place to live. Gaining control of the land gives us a chance to improve economic conditions. That's led to a measurable improvement in the psyche of the community.

For more information on the GCLB, visit www.thelandbank.org.

1/ Dan Immergluck, *The Accumulation of Foreclosed Properties: Trajectories of Metropolitan Inventories During the 2007–2008 Mortgage Crisis*, Community Affairs Discussion Paper, Federal Reserve Bank of Atlanta, December 2008. Available at www.frbatlanta.org.

2/ Nigel G. Griswold and Patricia E. Norris, *Economic Impacts of Residential Property Abandonment and the Genesee County Land Bank in Flint, Michigan*, Michigan State University Land Policy Institute, Report #2007-05, April 2007, p. 16. Available at www.landpolicy.msu.edu.

3/ Ibid, p. 17.

4/ This study is referenced in the two previous footnotes.

Michael Grover

Assistant Vice President, Community Development and Engagement

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.

Lessons learned from 22 years of debt mediation

The 22-year history of the Minnesota Farmer-Lender Mediation Program offers useful lessons about debt mediation that can be applied to our current foreclosure crisis.

May 1, 2009

AUTHOR

Joyce Hoelting

In the 1980s, farmers and their lenders faced a crisis of debt management and foreclosure that threatened the rural economy at its core. In its causes and symptoms, the farm loan crisis has many parallels to the mortgage crisis that hit in 2008. In the 1970s, agribusiness was a booming industry. Increased exports and favorable public policy generated high profits. As a result, land prices grew rapidly. Encouraged by the growing equity, lenders became generous with loans and debt-to-earnings ratios rose well above normal levels. In the 1980s, however, commodity prices dropped, weather-related crop disasters reduced production, and Farm Service Agencies began to see growing default rates—just as Fannie Mae and Freddie Mac did in 2007–2008.

The response to the crisis drove agribusiness further under. When lenders turned from equity lending to cash flow lending, the flow of credit was restricted, investment in agribusiness dropped sharply, and the entire rural economy felt the effects.

Seeking to end the paralysis, Congress passed the Agricultural Credit Act of 1987 to deal with foreclosures on agriculture-related loans. The act created a nationwide Farmer-Lender Mediation (FLM) Program that required federal agencies to help facilitate negotiations about credit problems.

Through the FLM Program, farmers and lenders have the opportunity to hold mediated discussions for the purpose of renegotiating, restructuring, or resolving farm debt. The program is administered and partially funded by the U.S. Department of Agriculture (USDA), which relies on a network of state-level FLM Programs to deliver mediation services. Currently, 35 states participate in the FLM Program, including the six Ninth District states of Michigan, Minnesota, Montana, North Dakota, South Dakota, and Wisconsin.

Though there are obvious differences between the farm lending and home mortgage industries, the 22-year history of the FLM Program offers useful lessons about debt mediation that can be applied to our current foreclosure crisis. This article describes the FLM Program in one Ninth District state—Minnesota—and shares lessons from Minnesota's FLM experience.

FLM fundamentals

Mediation is the use of a trained, neutral facilitator—a mediator—to assist in the negotiations of parties in a dispute. Mediators use conflict resolution skills to facilitate effective negotiation. They may advise, counsel, and assist the parties on ways to come to agreement, but do not tell them how they should conduct their business or personal affairs. A mediator does not take sides or decide how the dispute should be resolved.

The mediation process is informal, confidential, and generally requires less time and cost for all parties than court litigation. Mediation is used to resolve many kinds of disputes, from child custody cases to labor strikes. In the context of the FLM Program, mediation is used to help lenders and borrowers agree on how to resolve agricultural loans that are in default.

University of Minnesota Extension (Extension) has managed the Minnesota FLM Program since its inception. Funding is provided by the USDA, Extension, and the State of Minnesota. The goals of the program are to achieve open communication between the parties, create a nonhostile environment, define the rights and responsibilities of the borrower and creditor, treat all parties with dignity and respect, and produce agreements that are acceptable to all the parties involved.

The State of Minnesota requires a creditor with a secured debt of more than $5,000 against an agricultural property to offer FLM as an option before proceeding with foreclosure, repossession, cancellation of contract, or collection of a judgment. No creditor can start a proceeding to collect debt against a property until the offer of mediation has been extended. And if the offer is accepted, the creditor cannot start a proceeding until the mediation process is completed.

If the borrower chooses to take advantage of mediation, the first step is an orientation session during which the mediator and a financial analyst meet with the borrower and creditor to explain the process and determine if financial information needs to be prepared. The parties sign an agreement to mediate, which outlines a set of behaviors that each participant agrees to, including confidentiality, mediator immunity, binding results of the mediation, and good faith participation. Then, over the next 60 days, the borrower, creditor, and mediator meet regularly to design an acceptable agreement.

The Minnesota FLM Program has proven to be an economic asset to individuals, businesses, and communities affected by loans that are mediated. In fiscal year 2008, the program opened 2,002 mediation cases. Of those, 640 borrowers requested mediation, a 12.6 percent increase over the request rate from the previous year. Nearly 80 percent of mediated cases reached some kind of settlement, meaning farms stayed in business, lenders got paid, and people stayed in their communities. The total amount of debt addressed in mediation case sessions was over $156.3 million in 2008. Over $9.5 million of the mediated debt was owed to locally owned businesses in rural Minnesota. In addition, banks (including some local banks) held $126.3 million of the loans and Farm Service Agencies held almost $7 million.

Despite the growing presence of corporate farmers in the rural landscape, mediation is still mostly benefiting noncorporate farmers. In 2008, 77 percent of people who requested mediation were sole proprietors. The typical borrower had average agricultural debt of $273,521 and median family living expenses of $37,241 per year. In short, the Minnesota FLM Program helps real people and real businesses in real communities.

Lessons for the future

What has been learned through FLM could be helpful to future mediation programs, particularly those that may be created in response to the mortgage foreclosure crisis. According to Mary Nell Preisler, who has served as the director of FLM in Minnesota since 2003, the program offers the following lessons about debt mediation.

Hire the right mediators and prepare them well for the job. The parties in a mediation must have absolute trust in the process. This requires a mediator who can lead and manage the discussion as a neutral party, without making decisions or judgments. The Minnesota FLM Program seeks out people who are skilled at managing the components of the mediation process. These components include ensuring that all participants in a mediation are heard, helping define issues, emphasizing common goals, keeping the discussion focused and moving along, and reducing fault finding.

While knowledge of the process comes first, basic knowledge of the business being mediated is an important ingredient as well. Mediators should have a knowledge base that gives them the vocabulary they need to deal with complex loan situations. Otherwise, the mediator can get "left behind" when in-depth negotiation requires a particular vocabulary or knowledge of contextual information. In addition, the program looks for "soft skills" during the hiring process. These include maturity, wisdom, stability, confidence under pressure, an ability to manage boundaries, and an intuitive ability to "read" people and respond to them.

To prepare mediators for their work, Preisler seeks the best mediation training and provides constant coaching and peer support so the mediators understand their role, perform it skillfully, and reach the best conclusions available.

Always, always, always maintain the neutrality of your organization and your mediators. Neutrality must be reflected in messages put out by the program and in every face-to-face interaction. If there is any doubt that a mediation system will bring balance and neutrality to a discussion of the loans, it will affect the outcome.

Ensure each mediator and staff person knows and adheres to an established code of ethics. The importance of ethics must be reinforced in training, in writing, in supervision of mediators, and in regular organizational reviews. Retention of good, experienced mediators supports this cause, in the sense that they come to "live and breathe" the code of ethics over time.

Mediation programs need to establish proactive, ongoing relationships with intermediaries who advocate for the parties involved. Attorneys for major loan companies, nonprofit and government advocates for the borrower, and all other intermediaries must be apprised of the goals, structure, and approach of the mediating organization. By bringing respectful relationships to the table as mediation occurs, the focus can shift from defensiveness to productivity.

If the parties won't yield, mediation won't work. By far, the strongest predictor that mediation won't work is an unyielding position on one or both sides. Good mediators can recognize whether parties are ready to mediate and prepare them for what that means. Some tell their parties, "You can come in with a plan of action. You can go ahead and put that plan in cement, but you can't let the

cement dry." If the mediators are working with parties who are unwilling to participate—for example, if the party is determined to take a case to court—there is little a mediator can do.

Good mediation is also an education for the future. Once a borrower and lender have come to the point of mediation, it is clear that the status quo hasn't been working for either party. The mediation process creates a plan to establish change for the borrower, the lender, or both. It also educates both parties to use better business practices in the future.

As part of the mediation process, borrowers have to make core decisions about what is important to them—what is "sacred" and needs to be kept, what are the needs, and what are the wants. The process teaches borrowers how to create long-term strategies by restructuring their business plans around what is core to their business operations or quality of life.

For the lender, the process provides overall lessons—such as communication skills, business planning skills, industry knowledge, financial management, and more—that can be taken into all future business environments. Learning about the industries that are taking out business loans is especially important. In some situations, such as when a lender has purchased a loan portfolio, the lender may not have in-depth knowledge of all industries in the portfolio. When lenders end up in mediation, they get a more visceral view of the financial issues certain industries face. Awareness of those issues can promote better lending or encourage lenders to get out of businesses where they are not knowledgeable.

Create a system that is ready to address barriers to mediation. There are barriers that can keep borrowers and lenders from getting the most out of the mediation process. For borrowers, the barriers are largely emotional. The process of facing debt and laying it out bare to a host of lenders and outsiders is humbling and can be humiliating. And staying in debt for any period of time requires a state of denial. The words and care that good mediators use are artful in breaking through the denial and creating a productive environment. When it is done well, people understand the mutual benefit. As one debtor put it, "You've made me feel as though we are all in this boat together. It is sinking, but everyone involved has to help paddle, because coming to a resolution helps me, my family, the lender, and the entire community."

For lenders, the barrier is the extended time the process takes, resulting in a deferred resolution of the bad debt. Under current law, the process requires the lender to wait up to 90 days before taking action on a loan. The wait puts the lender's loan portfolio in limbo. This is where earned trust in the FLM Program's process and neutrality is important, because the lender has to take a leap of faith that the process will work.

In Minnesota, lenders have confidence in the FLM process due to the reputation and history of the program. As the numbers mentioned earlier demonstrate, the process works. It provides clarity for the future, it helps lenders establish working relationships in their communities, and it keeps money and people in those communities.

Joyce Hoelting is the assistant director of the University of Minnesota Extension Center for Community Vitality, which administers the Minnesota Farmer-Lender Mediation Program.

A conversation with Mary Nell Preisler

As discussed in our article, the Farmer-Lender Mediation (FLM) Program may be a useful model for other debt mediation programs, including those that deal with the mortgage foreclosure crisis. To learn more about FLM and the distinctions between the foreclosure crisis and farm lending, author Joyce Hoelting spoke with Mary Nell Preisler, director of the Minnesota FLM Program.

Joyce Hoelting: Today's home mortgage crisis includes the problem of loans being purchased by large, distant corporations. Has that been true in the case of farm loans?

Mary Nell Preisler: Yes, we've had relationships with Countrywide's attorneys, for instance, and we frequently are seeking mediation with second and third banks. A problem specific to farming is that these second and third banks do not know the business of farming and its particular industries. For example, soybean farmers have intricate systems of investment and selling, and government programs that they adhere to and benefit from. An outsider to the soybean industry may be much more likely to foreclose quickly on a soybean farmer than those who are in the know. The mediation becomes an educational process in those instances.

JH: How has the mortgage situation changed for farmers in the past 22 years?

MNP: The professional status and sophistication of farming has changed dramatically. It's been years since I've seen records kept in a shoebox. And more often than not, farming is a second or third profession in a family that is making nonfarm income.

JH: The farm crisis that led to the Farmer-Lender Mediation Program has been over for years. What is stimulating the need for mediation now?

MNP: The farm crisis is over, but the amount of farm debt we are mediating is actually growing. It's caused by a myriad of things. Of course, both lenders and borrowers can make bad choices. But there is also the legitimate measure of risk vs. reward in farming, like any industry. We see farmers who have reinvested their entire operation in sustainable agriculture ventures, or who bank on the future of commodity prices or new technologies. When those risks pay off, it's good for local economies. When they don't, we all suffer the fallout.

And then there's just dumb luck and bad luck. Lower gas prices may help some farmers out of a debt that otherwise was headed for crisis. A sickness or family death can do in a business, and few farms can withstand divorce now, what with the complexity of business ownership. When Immigration and Customs Enforcement conducted raids at meatpacking plants in southern Minnesota in 2006, hog farmers lost $30 to $40 per head because the plants weren't staffed to process their hogs when they were the right weight.

JH: In your opinion, what could prevent future crises in farm lending?

MNP: Conservative business planning and maintaining use of cash flow lending would help in some, but not all, situations. Solid business practices and planning, and common sense about debt and lending, will go a long way toward preventing the next crisis.

Partners unveil foreclosure resource site

May 1, 2009

An alliance of community development practitioners and researchers has created a web site to help states and localities respond to the home mortgage foreclosure crisis. The new site, Foreclosure-Response.org, offers a breadth of resources for municipal, county, and state governments engaged in foreclosure prevention and stabilization. Features include an extensive list of Q&As about foreclosures and related topics, a policy guide to help governments design responses to the crisis, maps and data that identify geographic areas in greatest need of foreclosure intervention, and an online forum where participants can discuss foreclosure prevention and neighborhood stabilization strategies. The site is sponsored by the Center for Housing Policy, KnowledgePlex, Local Initiatives Support Corporation, and the Urban Institute.