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CASCADE

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HUD Awards $95 Million to Third District for Neighborhood Stabilization

By Jacob Arem, Community Affairs Intern

Twenty-seven Camden homes rehabilitated. A blighted Chester apartment building demolished. Financial assistance to troubled borrowers in Delaware's Sussex County. These and other activities are getting underway as part of the nearly $4 billion Neighborhood Stabilization Program (NSP) created by the Housing and Economic Recovery Act of 2008 (HERA) to aid communities hit by the foreclosure crisis. Funds are being distributed on the basis of a formula aimed at areas of greatest need, and the largest grants are going to California, Ohio, Texas, Michigan, and Florida. However, the Third Federal Reserve District also stands to gain from the program: A total of $56 million is headed for central and eastern Pennsylvania, $20 million is going to southern New Jersey, and nearly $20 million is targeted to Delaware.

The NSP is being called the most significant housing program since the Housing and Community Development Act of 1974.[1] It aims to deal with foreclosures at the neighborhood level in order to mitigate the risk that vacant or foreclosed houses can

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[1] See Alan Mallach, "How to Spend $3.92 Billion: Stabilizing Neighborhoods by Addressing Foreclosed and Abandoned Properties," Discussion Paper, Federal Reserve Bank of Philadelphia, October 2008, available at http://www.philadelphiafed.org/community-development/publications/discussion-papers/.

Delaware County, Pennsylvania, received a $6.7 million grant under the Neighborhood Stabilization Program to demolish the blighted Penn Hills apartment complex in Ridley Township. Pennrose Properties, LLC will develop 26 townhouses on the site for rent to low- and moderate-income households. (Photo provided by Pennrose Properties)

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Message from the Community Affairs Officer

While we are still a long way from everything looking rosy, there are some signs that the economic crisis has reached a bottom and the financial system is beginning to recover. In the community development world, large amounts of federal funding from the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA) are expected to generate positive results. In May 2010, at this Fed's biennial conference on older communities, we will look at changes as a result of the foreclosure crisis and the opportunity that new federal funding brings. But long before next spring, you will want to hear what is happening, so read on.

The Neighborhood Stabilization Program, which was created by the HERA last year, is providing more than $131 million in funding to the states of Delaware, New Jersey, and Pennsylvania and another $41 million to individual cities such as Philadelphia, Pittsburgh, and Newark. The article by Jacob Arem provides more details on who has received first-round NSP funds and how they will be spent.

One of the most difficult consequences of the financial crisis has been the delay of construction of many low-income rental housing units. Lately, investors have had smaller appetites for purchasing the tax credits that finance these important affordable housing units. As the prices for equity investments have fallen, a gap in financing has developed. The ARRA provides two means of getting these projects going again, and Buzz Roberts of the Local Initiatives Support Corporation writes about other ways to improve the likelihood that these projects will be built.

While all three states are expecting multiple types of funding through the ARRA, Delaware has clearly identified its plans in an article by the state's lieutenant governor, Matthew Denn. In his article Denn talks of the challenges of 1) understanding the contents and requirements of the ARRA quickly and accurately, 2) letting the citizens of the state understand the opportunities, 3) remembering that the ARRA is a temporary stream of funding, and 4) planning to keep tight controls on spending without slowing down the disbursement of the funding.

And just when you think the foreclosure problem cannot get worse, we hear more stories of efforts to trick desperate homeowners. New Jersey has taken legal action against a number of companies and individuals, and Pennsylvania has issued cease and desist orders against several out-of-state companies. Both states and Delaware are implementing marketing campaigns to alert consumers to these foreclosure prevention scams. See Keith Rolland's story about these plans.

In future issues, we will continue to bring you stories on individual communities' recovery efforts.

Strengthening the Low Income Housing Tax Credit Investment Market

By Buzz Roberts, Senior Vice President for Policy and Program Development, Local Initiatives Support Corporation, Washington, D.C.

The low income housing tax credit (LIHTC) has been the federal government's most successful program for producing quality rental housing for low-income families and individuals. It has created jobs, revitalized low-income communities, and expanded low-income families' and individuals' access to geographic areas that offer relatively good employment and educational opportunities.

By engaging private capital and imposing financial discipline, the LIHTC has produced over 2 million affordable rental homes[1] while incurring an annualized foreclosure rate of less than 0.1 percent.[2]

The nonprofit Alliance for Building Communities used a $3.5 million LIHTC investment to convert a historic 1902 knitting mill into 27 apartments for older people in Hamburg, Pa. The investment came from a multi-investor fund organized by the National Equity Fund, a subsidiary of the Local Initiatives Support Corporation, which also provided a loan and grants to the nonprofit. The rehabilitation complemented $1.6 million in streetscape renovations to the commercial district.

Historically, the financial services sector has provided 80 to 90 percent of LIHTC investments, a result of its real estate financing expertise and regulatory mandates to address low-income needs. Fannie Mae and Freddie Mac have provided about 40 percent of LIHTC investments, and banks motivated by the Community Reinvestment Act (CRA) have also provided about 40 percent, led by the largest banks. Insurance companies and other investors have provided additional LIHTC investments.

However, the substantial losses that many financial institutions have recently incurred have eliminated or reduced their ability to use tax credits. Since these credits are payable over a 10-year period, and the future tax liability of financial institutions has become more uncertain in the current environment, the risk that the investment will not be profitable because the tax credits cannot be claimed as scheduled is problematic for some financial institutions.

Fannie Mae and Freddie Mac had stopped making new investments even before entering federal conservatorship last year. While some banks have kept investing, others have cut back substantially. Overall, in 2008 LIHTC-based investment dropped to about one-half of the $9 billion invested in 2007. Many observers expect about the same level of investment or less in 2009. Moreover, current investors that cannot use tax credits are reportedly trying to sell their portfolios, and the mere prospect of such divestment is further destabilizing an already weak investment market.

The investors still in the market can take their pick of projects and command much higher rates of return. From a public policy perspective, however, that means each dollar of tax credit generates less capital for housing, and many high-priority deals are not getting done because they now have financing gaps, are

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[1] Source: National Council of State Housing Agencies.

[2] Ernst & Young, "Understanding the Dynamics IV: Housing Tax Credit Investment Performance," (2007), p. 49.

Stimulus Bill Opportunities and Challenges for Delaware

By Matthew P. Denn, Lt. Governor of Delaware, Dover, Del.

Delaware, like all other states, will reap significant benefits from the American Recovery and Reinvestment Act (ARRA), but the state faces significant challenges in implementing the law as well.

By our current estimate, over the next three years $902 million in both operating and capital funds will flow to Delaware state government through formula and discretionary grants, another $245 million will come to federal agencies for projects in our state such as the Amtrak train station in Wilmington and Dover Air Force Base, and $31 million more will be given to counties, municipalities, and private nonprofits. (To put this in perspective, Delaware's annual operating budget, including state and federal funds, is approximately $4 billion.) These numbers will almost certainly increase as Delaware is successful in obtaining competitive grants. The high ratio of funding received by the state compared to that received by local governments reflects the fact that, in Delaware, the vast majority of government services are delivered at the state level.

Matthew P. Denn, Lt. Governor of Delaware

Although there are no precise state-by-state projections, hundreds of millions more will go to individual Delawareans in the form of federal tax benefits and incentives and direct grants and loans. Tax provisions in the ARRA include an extension of alternative minimum tax relief, an expansion of the earned income tax credit, and new or expanded credits and deductions for purchasing new vehicles, especially alternative-fuel vehicles; for first-time homebuyers; for energy efficiency; and for college education.

> The first and most pressing [challenge] is simply to understand the contents of the thousand-page bill and what it means for the state.

Roughly speaking, a third of the money coming to our state will go toward filling Delaware's budget gaps for fiscal year 2009, which ended on June 30, and the next two fiscal years. The next third will go directly to construction — the aforementioned federal agency projects, highways and transit, housing, and environmental projects. The final third will primarily be divided among more than 50 different state-run programs already funded in whole or in part by the federal government. To stimulate the economy as quickly as possible, Congress generally chose to increase funding to existing programs rather than create new ones, which would require a lengthy ramp-up.

About $63 million of the stimulus package formula funding for Delaware will go to housing and community development programs on both the operating and the capital sides. Most of the funding is split between the Delaware State Housing Authority and the other four county and municipal housing authorities. Two-thirds of the federal monies will increase the spending levels of four ongoing programs: the Community Development Block Grant (CDBG), the HOME Investment Partnership, the Homelessness Prevention program, and the Public Housing Capital Fund.

The CDBG is a flexible funding stream intended to provide communities with resources to address a wide variety of unique community needs, including but not limited to rehabilitating affordable housing and improving public facilities. The HOME Investment Partnership provides low income housing tax credits to be distributed competitively to developers of such housing. The Homelessness Prevention program provides financial assistance and services to prevent individuals and families from becoming homeless and to help those who are experiencing homelessness to be quickly re-housed and stabilized.

The types of housing assistance available include emergency shelter, short-term or medium-term rental assistance, housing relocation and stabilization services, mediation of landlord-tenant disputes, credit counseling, security or utility depos-

its, utility payments, moving cost assistance, and case management. The Public Housing Capital Fund pays for modernizing existing low-income housing stock.

In addition, for the first time, the ARRA is also making nearly $23 million worth of grants in lieu of tax credits available to developers of low-income housing. The Delaware State Housing Authority will make awards to finance the construction or acquisition and rehabilitation of qualified buildings for these grants. Delaware is also seeking additional millions in competitive grants for housing capital, neighborhood stabilization, community development, and economic development.

Some private nonprofits in Delaware, primarily Head Start agencies and our federally qualified health centers, have already been the recipients of direct stimulus grants. Delaware's other nonprofits benefit from the formula funding of the stimulus package primarily through the Community Services Block Grant (CSBG). The CSBG is an ongoing program, but the ARRA provides a bonus payment of $5 million, about 1.5 times the recent annual appropriation level. CSBG funds are distributed to nonprofits not by a state agency but by an umbrella organization, First State Community Action, on a statewide competitive basis.

The ARRA's most direct beneficiaries in the business community are the construction contracting companies. All of the more than $400 million for construction will be allotted to the private sector through competitive bids – for roads, bridges, new and expanded wastewater treatment facilities, public drinking water supplies, and energy efficiency retrofitting. The broader business community can also benefit from the ARRA's direct competitive grant opportunities, especially in alternative energy, considerably expanded SBA loan programs, and tax relief.

Delaware continues to face a number of challenges in receiving its stimulus funds. The first and most pressing is simply to understand the contents of the thousand-page bill and what it means for the state; we must also ensure that we meet all of the deadlines and requirements of the law. Meeting all of the deadlines and complying with every requirement are ongoing tasks, tasks made somewhat more difficult given that we do not have one employee whose only job is to handle the stimulus package.

A second challenge is making Delaware's citizens aware of their stimulus opportunities. We have made full use of Delaware's Clearinghouse Committee, a joint committee of the executive and legislative branches charged with reviewing all federal grant applications, including those related to the ARRA. The committee graciously doubled its meeting schedule to accommodate the long list of stimulus-related grants. Its

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Stimulus Bill Websites and Reports

Federal grant opportunities related to the American Recovery and Reinvestment Act (ARRA) are identified at www.recovery.gov. A useful source for finding and applying for federal grants is www.grants.gov.

Information on ARRA-related spending in Pennsylvania, New Jersey, and Delaware may be found at www.recovery.pa.gov, http://www.state.nj.us/recovery/, and http://www.recovery.delaware.gov.

The U.S. Small Business Administration has information on ARRA-funded small business programs at http://sba.gov/recovery/information/index.html.

A Local Initiatives Support Corporation summary of ARRA-funded programs may be found at www.lisc.org/; select policy and "Sustainable Communities and the American Recovery and Reinvestment Act: Items of Interest and Details."

An Enterprise Community Partners summary of ARRA programs may be found at http://www.enterprisecommunity.org/public_policy/.

A Brookings Institution report "Implementing ARRA: Innovations in Design in Metro America" may be found at http://www.brookings.edu/.

HUD tracks ARRA funding for HUD programs at www.hud.gov/recovery.

The IRS describes ARRA tax incentives for businesses at http://www.irs.gov; select newsroom and 2009 fact sheets. For ARRA tax benefits available to taxpayers, select newsroom and news releases.

The Center on Budget and Policy Priorities provides state-by-state estimates of ARRA spending affecting low- and moderate-income individuals at http://www.cbpp.org/files/1-22-09bud.pdf .

States Fight Foreclosure Rescue Scams

As part of a growing concern about foreclosure rescue scams, Pennsylvania, New Jersey, and Delaware are filing lawsuits, issuing cease and desist orders, and mounting advertising campaigns to reach homeowners who need help.

Marge DellaVecchia, executive director of the New Jersey Housing and Mortgage Finance Agency, said, "Although legitimate assistance from HUD-certified housing counselors is available without charge to homeowners, too many homeowners are falling victim to foreclosure rescue scams being perpetrated by individuals and companies that are not licensed by any state or federal agency and that are charging homeowners for help that is not forthcoming."

Legal Actions

The state of New Jersey has filed a total of 11 civil mortgage fraud lawsuits since June 2008. The lawsuits have named 102 individual and corporate defendants whose actions have affected more than 950 victims, as well as property worth more than $29.1 million.

New Jersey has also obtained indictments or guilty pleas in seven criminal mortgage fraud cases involving a total of 10 defendants. The defendants have been charged with victimizing close to 60 individuals and banks in connection with loans worth approximately $11 million.

Delaware's attorney general has filed two cases alleging mortgage rescue fraud since October 2008. The cases involved four individuals and one corporate defendant.

Administrative Actions

In May, the Pennsylvania Department of Banking (DOB) issued cease and desist orders to six out-of-state mortgage modification companies. The DOB is also working with servicers and the Pennsylvania Housing Finance Agency (PHFA) and sending letters that encourage homeowners to seek help from qualified housing counseling agencies, caution homeowners about companies offering to help modify mortgages for a fee, and publicize assistance available from the state's programs.

A working group of representatives from the PHFA, the attorney general's office, the DOB, and the department of state has been meeting since May 2009 to address consumer complaints that have been received by housing counselors. The com-

The Federal Reserve Board

5 Tips for Avoiding Foreclosure Scams

1. **Work only with a nonprofit, HUD-approved counselor.**
   If you are looking for help to prevent foreclosure (www.federalreserve.gov/pubs/foreclosuretips/default.htm), be sure the counseling agency is on the Department of Housing and Urban Development's list of approved agencies. Visit HUD's website for an easily searchable list of HUD-approved housing counseling agencies (www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm), or call 877-HUD-1515 (877-483-1515) for more information. If you are approached by foreclosure counselors—by mail, phone, or in person—make sure the counseling agency is HUD-approved before you do business with them.

2. **Don't pay an arm and a leg.**
   You should *not* have to pay hundreds—or thousands—of dollars. Most HUD-approved housing counselors provide no-cost counseling services and many more provide low-cost counseling. Do not agree to work with a counselor who collects a fee *before* providing you with any services or who accepts payment only by cashier's check or wire transfer. In general, do not pay money to anyone unless you know exactly what services you will receive.

3. **Be wary of "guarantees."**
   A reputable counselor will not guarantee to stop the foreclosure process, no matter what your circumstances. Working with a legitimate counselor can certainly increase your chances of keeping your home—but be wary of people who promise a sure thing. Again, get the details of your transaction, along with any promises, in writing first.

4. **Know what you are signing—and be sure *you* sign it.**
   Don't let a counselor pressure you to sign paperwork you haven't had a chance to read through carefully or that you don't understand. Don't sign any blank forms or let "the counselor" fill out forms for you. Be sure to talk with an attorney before signing anything that transfers the title of your home to another party.

5. **If it sounds too good to be true, it probably is.**
   If you feel you may be the target or victim of foreclosure fraud, trust your instincts and seek help. For tips on spotting scam artists, visit the Federal Trade Commission's webpage on foreclosure rescue scams (www.ftc.gov/bcp/edu/pubs/consumer/credit/cre42.shtm). Report suspicious schemes to your state and local consumer protection agencies, which you can find on the Federal Citizen Information Center's Consumer Action Website (www.consumeraction.gov/caw_state_resources.shtml).

Visit **www.federalreserve.gov/consumerinfo** for more information on mortgage and other consumer topics.
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Foreclosure Scams HOW TO AVOID THEM

consumer*brief*

The thought of losing one's home through foreclosure is a frightening prospect. In desperation, many homeowners fall victim to con artists who offer to help them save their homes, but ultimately make the situation worse.

These con artists cheat homeowners out of thousands of dollars and their homes through deceit, deception and lies.

WHAT IS FORECLOSURE?

Foreclosure is the equitable proceeding in which a bank or other secured creditor sells or repossesses a parcel of real property (immovable property) due to the owner's failure to comply with an agreement between the lender and borrower called a "mortgage" or "deed of trust."

THE SCAM: TRANSFER OF DEED

Homeowners are urged to transfer their property deed for a minimal payment offered by the con artist. The con artist may promise to transfer the deed back after certain conditions are met. A homeowner may receive a few thousand dollars in return for signing away his or her ownership of the home but can end up losing tens of thousands of dollars in equity due to the homeowner as well as the title to the home. The con artist's verbal promises go unfulfilled.

HOW THE HOMEOWNER LOSES AND THE CON ARTIST PROFITS

The Foreclosure Process

Often times, after obtaining the deed, the con artist allows the home to go through foreclosure. At the sheriff's sale*, the home often sells for more than what is owed to the mortgage company and the taxing authorities.

** A sheriff's sale is an auction of property conducted by the sheriff following a court order to seize and sell a property to pay a debt after notice to the public.*

The difference between the sales price and amount owed is called **Surplus Funds**.

The deed holder is entitled to the Surplus Funds. The con artist who bought the deed, sometimes for a small amount, is entitled to apply for the Surplus Funds. The original homeowner who would have been entitled to those funds loses out on potentially tens of thousands of dollars.

HOW HOMEOWNERS CAN PROTECT THEMSELVES

When homeowners are contacted about foreclosure options by a third party, homeowners should:

- Contact their lender. They may be able to work a re-payment plan (forbearance agreement) that is within a homeowner's budget;
- Seek legal advice through a trusted attorney, not one appointed by the company or individual soliciting them;

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plaints substantially concern foreclosure rescue scams. The agencies explore whether companies cited in the complaints are properly licensed, have posted required bonds, and have complied with other laws.

The agencies and offices discussed complaints involving 41 companies at a July 16 meeting, said Bob Bobincheck, director of strategic planning and policy at the PHFA. Bobincheck noted that "a lot of the results of the inquiries are behind the scenes."

In Delaware, the attorney general's Mortgage Fraud Task Force was launched in June 2009. Composed of the Delaware Department of Justice, the Delaware State Housing Authority, Office of the State Bank Commissioner, Delaware's HUD-certified housing counselors, and nonprofits that provide housing services, the task force sponsored three housing workshops that brought together homeowners, state agencies, housing counselors, nonprofits, and mortgage servicers. The task force provides operational and marketing support of housing events coordinated by member agencies. Homeowners are directed to a unified statewide housing events calendar at www.deforeclosurehelp.org. The attorney general's Mortgage Hotline has been established at (800) 220-5424 for mortgage assistance and referral services.

Legislation

Two Pennsylvania bills were signed into law in June. One prohibits a mortgage broker or originator from being the sole recipient of communications from lenders in an effort to ensure that consumers receive monthly statements and other notices intended for them by their lenders. The other bill protects mortgage company employees who report illegal activity or take part in an investigation from retaliation through reduced salaries, termination, or other actions.

Delaware's Mortgage Rescue Fraud Protection Act, which took effect January 1, 2009, protects homeowners after an action for foreclosure is filed on a principal residence. The act regulates foreclosure consultants who claim that they can save a homeowner from foreclosure, for a fee, by requiring that a consultant sign a written contract with the homeowner that includes all the terms and provides for a right of cancellation. Moreover, the act prohibits payment before services are complete. Details are at www.attorneygeneral.delaware.gov/mortgageforeclosure.

Consumer Education

Pennsylvania and Delaware are mounting advertising campaigns to encourage homeowners to seek help from qualified housing counseling agencies and to caution homeowners about companies offering to help modify mortgages for a fee.

In Pennsylvania, the PHFA will sponsor the ads, including some in conjunction with the DOB, explained Bobincheck. All the ads will direct consumers to the state's housing counseling network and will contain contact information for counseling

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Will Income Inequality Be Reduced by the American Recovery and Reinvestment Act of 2009?

The financial crisis and the current recession have caused widespread hardship throughout the economy. In addition to unprecedented measures undertaken by the federal government to quell the turmoil in the financial markets, the government has also implemented the multi-billion-dollar American Recovery and Reinvestment Act of 2009 (ARRA), which, according to the administration, "will lay the foundation for a robust and sustainable 21st century economy."[1] A key objective of the ARRA is to save as well as create several million jobs. The income from the jobs (and other provisions in the ARRA) will provide much needed assistance to millions of households. This will be welcome news especially for those at the lower end of the income scale, where the performance of family income has lagged behind those at the top of the income distribution. In the absence of corrective economic measures, the recession would likely exacerbate the unequal distribution of incomes among households. But given the actions taken by the current administration, at issue is what impact the ARRA will have on household income inequality. This concern is the subject of a study by Ajit Zacharias, Thomas Masterson, and Kijong Kim.[2] The following is a summary of their findings.

Background

The authors point out that average growth in output and employment levels during the 2000s is much lower than that from 1950 to 2000; moreover, the average growth rate in median family income is even lower than the levels for output and employment between the same two periods. Thus, it is unlikely that any improvement will occur in the unequal distribution of income. To complicate matters, the financial crisis and the onset of the recession could serve to increase income inequality.

Among the measures to address the economic situation, the government has employed a package of expenditures and tax cuts under the ARRA. In addition to creating millions of jobs, the act is expected to "provide relief to low-income and vulnerable households especially hurt by the economic crisis and, at the same time, support aggregate demand."

The authors analyze the effects of the ARRA. More specifically, they "provide a preliminary assessment of the Act in terms of its likely impact on median household income, gaps between advantaged and disadvantaged population subgroups, and income inequality." They hasten to underscore the preliminary nature of their analysis. They note that a great deal of money under the ARRA remains to be spent and the decisions regarding the manner of allocation are still to be determined. Thus, their analysis is tentative and subject to change with the refinement of their methods and the availability of better data.

Methodology

The analytical approach taken by the authors includes "constructing a baseline scenario; estimating the

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[1] See http://www.recovery.gov/?q=content/act.

[2] Ajit Zacharias, Thomas Masterson, and Kijong Kim, "Distributional Impact of the American Recovery and Reinvestment Act: A Microsimulation Approach," Levy Economics Institute of Bard College, Working Paper 568 (June 2009).

increase in employment by industry and occupation due to ARRA; and simulating the accompanying effects of changes in earnings on the distribution of money income." The authors used data from the 2008 Annual Social and Economic Supplement (ASEC) to construct a baseline of labor conditions and distribution of income against which to measure the effects of the ARRA. Since these data cover the experiences of individuals and households in 2007, they adjusted the data to reflect labor force conditions in January 2009 and total income for adults in 2008.[3]

The effects of the ARRA are assessed only through its creation of new employment and the resulting effects on earnings. The authors refer to this approach as "comparative-static," since they do not "take into account how other changes in the economic environment would affect employment and income distribution in the current and future years." Given the prospects that unemployment will be relatively high in the next few years, the authors consider their simulated effects of the ARRA a "best-case scenario" for employment.

The authors undertake their derivation of the fiscal stimulus from the ARRA over the 2009-2011 period by first estimating the impact of tax cuts, transfers, and subsidies on gross domestic product (GDP) and the resulting change in employment, and then estimating the employment effect of government purchases of goods and services. In the former case, they use a "set of multipliers that convert an additional dollar of government expenditure (or tax cut) into an increase in GDP." They draw on the "low" and "high" values for the multiplier used by the Congressional Budget Office (CBO). While the authors use the CBO's high value, they use the midpoint of the range as their "medium" value.[4] In the latter case, the authors use two alternative assumptions. Under the first assumption, they distribute the increase in government purchases among various government industries, which is referred to as the "government" assumption. The second assumption calls for distributing the final demand (from government purchases) primarily across private industries (with a limited amount to government industries) and is known as the "private" assumption.

The authors also assume that the "additional demand for labor created by the stimulus would be met by an increased supply of labor from the pool of 'employable' individuals in the ASEC."

Findings

Combining the employment estimates generated from government tax cuts, transfers, subsidies, and purchases of goods and services under their various assumptions, the authors wind up with four scenarios: Government High, Government Medium, Private High, and Private Medium.

Estimates of Job Creation. The authors compare their estimates of jobs created under the ARRA from 2009-2011 under the four scenarios (which range from 6.1 million to 8.8 million) with those of the CBO and the administration's Council of Economic Advisors (CEA). They note that there is a "remarkable coincidence" that the new job estimates under their two "medium" scenarios (6.1 million under Government and 6.3 million under Private) are almost identical to the CEA's estimate (6.2 million).[5] Nonetheless, given the decline in employment stemming from the recession and the likelihood of more job losses in the near future, the authors conclude that the "job creation effect of ARRA is primarily a (partial) replacement of lost jobs."

Effects on Earnings and Household Income. The authors find that the impact of the ARRA will have little effect on overall income inequality. More specifically, "the bottom 60 percent of households are unlikely to see any notable improvement in their money income as a result of ARRA," while the incomes of the top 40 percent will probably not be adversely affected.

They also find that "it is unlikely that the ARRA will have any palpable effect on redressing the substantial gaps in money income that exist between nonwhites and whites, single-female headed families and married couples, and less-educated and college graduates."

In light of their analysis, the authors suggest that a "comprehensive employment strategy that goes well beyond the ARRA" be implemented. They further indicate that public employment should play a key role in this alternative strategy.

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[3] These adjustments were necessary to capture the "steep rise in joblessness during 2008 and the accompanying changes in earnings."

[4] The authors distribute the resulting increase in GDP among the major industries, which, in turn, gives rise to increased employment by industry.

[5] It is remarkable since the authors used a considerably different methodology and assumptions.

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pose to community stability. NSP funds may be used to "(A) establish financing mechanisms… including soft-seconds, loan loss reserves, and shared-equity loans… (B) purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop… (C) establish land banks for homes that have been foreclosed upon, (D) demolish blighted structures, [and] (E) redevelop demolished or vacant properties."[2]

A crucial feature of the program is its emphasis on geographic targeting. Since resources are limited, the program is intended to stabilize neighborhoods in transition or on the verge of decline, not to revitalize entire cities. Income targeting is a requirement, with all funds aiding individuals and families at or below 120 percent of area median income and at least 25 percent of each grant directed toward households earning 50 percent or less of the area median income. The U.S. Department of Housing and Urban Development (HUD), charged with distributing NSP funds, urges grantees "not only to stabilize neighborhoods in the short-term, but to strategically incorporate modern, green building and energy-efficiency improvements in all NSP activities to provide for long-term affordability and increased sustainability and attractiveness of housing and neighborhoods."[3]

Since resources are limited, the program is intended to stabilize neighborhoods in transition or on the verge of decline, not to revitalize entire cities.

The NSP provides grants of at least $19.6 million to every state as well as direct assistance to municipalities based on a formula that considers high numbers or percentages of foreclosures, subprime mortgages, and mortgage defaults and delinquencies.

Direct HUD Allocations

The HUD formula provided direct grants to three municipalities in the Third District: Philadelphia, Allentown, and York County.[4]

Philadelphia received nearly $17 million directly from HUD, which, along with an additional $3.8 million allocation from the state, will be used to acquire and rehabilitate approximately 215 properties. The Philadelphia Redevelopment Authority will use NSP funds only on blocks with a vacancy rate below 5 percent. Eighty percent of funds will be directed to nearly two dozen ZIP codes, including neighborhoods in lower Northeast Philadelphia, Olney, Oak Lane, and West, Southwest, and South Philadelphia.

The city of Allentown will spend most of its $2 million grant on acquisition and rehabilitation, while York County (excluding the city of York) will use its $2 million allotment on a mix of acquisition, rehabilitation, and demolition.

State Allocations

Each of the three Third District states used a competitive application process to distribute its federal grants.

Pennsylvania

Of Pennsylvania's $60 million grant, nearly $35 million will go to communities within the Third District. The Pennsylvania Department of Community and Economic Development (DCED) awarded funding based on applications from municipalities, redevelopment authorities, and nonprofits.

Pennsylvania used a data-driven approach to target funds, according to Ed Geiger, director of DCED's Center for Community Development. "We relied on the HUD risk

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[2] U.S. Department of Housing and Urban Development, *Federal Register*, 73:194, October 6, 2008.

[3] U.S. Department of Housing and Urban Development, *Federal Register*, 73:194, October 6, 2008.

[4] Other direct federal grantees in this region are, in Pennsylvania, Allegheny County ($5.5 million) and Pittsburgh ($2.0 million); and, in New Jersey, Newark ($3.4 million), Union County ($2.6 million), Paterson ($2.3 million), Jersey City ($2.2 million), and Bergen County ($2.1 million).

[5] The HUD risk score measures estimated risk of foreclosure and abandonment on a 0-to-10 scale. A complete listing of the risk score and data for each census tract and block group is available at huduser.org/DATASETS/nsp_target.html.

scores[5] but also heavily weighted the neighborhoods and communities that met the definition of middle markets, which directly corresponds to the 'tipping point' neighborhoods that were espoused…by Alan Mallach,"[6] Geiger explained. "These are neighborhoods on the margin that could go either way, getting dramatically worse or better. These places are likely to be the most effective places to infuse public money. The Reinvestment Fund helped us better define those neighborhoods, which we began calling middle markets, as ones that had an average sales price between 50 and 130 percent of the county's median sales price."

The state's largest grant, for $6.7 million, will go to Ridley Township for the demolition of part of the blighted Penn Hills apartment complex, with some land to be redeveloped by Pennrose Properties as LEED Silver[7] townhouses and the rest placed into a land bank. Other major recipients are Philadelphia ($3.8 million), Scranton ($3.0 million), and Cambria County ($3.0 million).

Pennsylvania expects that, statewide, the NSP will fund the acquisition and rehabilitation of 630 units, the demolition of 308 blighted units, limited land banking, and financial assistance for homeowners.

New Jersey

The New Jersey Department of Community Affairs divided up New Jersey's grant of $51.5 million based on a competitive application process open not only to municipalities and nonprofits but also to for-profit developers. The $20 million allocation to southern New Jersey includes grants of $2.5 million to each of four entities: the Cumberland County Empowerment Zone Corporation, Gloucester County, Trenton, and a Camden project of for-profit developer RPM Development LLC. Execution plans vary widely: The city of Burlington will act as its own developer, while several other localities have hired Triad Associates, a housing development consulting firm, to manage their programs. Statewide, the NSP will fund at least 200 acquisitions, 150 rehabilitations, 50 demolitions, and 20 new units.

Delaware

Delaware received the minimum state grant of $19.6 million, distributed by the Delaware State Housing Authority (DSHA) to New Castle County ($7 million), Wilmington ($5.6 million), Kent County ($2.5 million), Sussex County ($2 million), and Dover ($1.5 million). The DSHA projects that funding will be available to acquire and rehabilitate 150 units in the state while also carrying out some demolition in older areas. Delaware's NSP recipients will team up with a wide range of partners, ranging from local housing authorities to nonprofits such as the Diamond State Community Land Trust, Habitat for Humanity, and United Cerebral Palsy of Delaware. Delaware has already launched a billboard, radio, and television campaign promoting homeownership and is focusing particularly on housing counseling.

The HERA requires NSP recipients to spend all funds within the next four years. Meanwhile, the American Recovery and Reinvestment Act of 2009 appropriates another $2 billion to the NSP to be awarded not by formula but by a national competitive application process. HUD is expected to release the results by December 1, 2009.

General information on the NSP is available at www.hud.gov/nsp. For information on Pennsylvania, visit newpa.com or contact Ed Geiger of DCED at (717) 787-5327 or egeiger@state.pa.us; for New Jersey, visit www.state.nj.us/dca or contact Diane Kinnane of DCA at (609) 633-6182 or dkinnane@dca.state.nj.us; for Delaware, visit destatehousing.com or contact Victoria Powers of DSHA at (302) 739-4263 or vicky@destatehousing.com.

NSP Research

Community Affairs researchers across the Federal Reserve System are finalizing plans for a study of the planning and early implementation phases of the Neighborhood Stabilization Program (NSP). Data collection will begin in the near future. The study will include interviews with a sample of NSP directors throughout the country. Data from a number of sources, such as the census and Home Mortgage Disclosure Act, will provide background information on conditions in the communities where interviews are conducted.

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[6] See Alan Mallach, "How to Spend $3.92 Billion: Stabilizing Neighborhoods by Addressing Foreclosed and Abandoned Properties," Discussion Paper, Federal Reserve Bank of Philadelphia, October 2008, available at http://www.philadelphiafed.org/community-development/publications/discussion-papers/.

[7] LEED, or Leadership in Energy and Environmental Design, is an environmentally friendly building rating system developed by the U.S. Green Building Council with four levels of certification: certified, silver, gold, and platinum.

Strengthening the Low Income Housing Tax Credit Investment Market continued from page 3

perceived as too complicated or risky, are in locations that get less attention from CRA examiners, or involve potential bank investors that already have enough investments to meet their CRA needs. Although there is a shortage of LIHTC investment in most places, rural areas and smaller cities tend to be especially disadvantaged. Similarly, most investors would rather avoid complex projects that provide housing for the homeless or other special needs populations, as well as those that would preserve federally assisted housing or otherwise use federal rent subsidies.

The recently enacted American Recovery and Reinvestment Act provides temporary grant funds to jump-start stalled projects but does nothing to reactivate the investment market.

Three ways to attract private investment from both experienced and novice investors are:

1. **Congress could permit investors to "carry back" LIHTCs** from existing projects for five years from 2009-2011 tax returns, provided the investors make new LIHTC investments of an equal amount. Under current law, an investor without enough tax liability in a given year to use the LIHTCs it has earned can "carry back" the credits one year by amending its tax return for the previous year. However, many current investors face more than one year without profits, so they need a longer carry-back period in order to claim the LIHTCs. This would stimulate new investments immediately and discourage the sale of current portfolios in a weak market. In addition, investors in new projects should generally be permitted to carry back LIHTCs for five years at any time during the 10-year term of the LIHTCs. This policy would address the tax risk for most LIHTC investors. Extending the carry-back to five years would require legislation, which Congress could consider later this year.

2. **Regulators could increase the flexibility of Community Reinvestment Act (CRA) policies concerning regional investments.** Regional and local banks could greatly expand their LIHTC investments, but many of these banks need (and want) to co-invest with others through large regional or national funds. These funds offer safety, risk diversification, and efficiency, especially for relatively new and small-scale investors. However, current CRA policy guidance limits the recognition of investments made through regional and national multi-investor funds, thus undermining the effectiveness of the CRA to motivate such LIHTC investments. The CRA regulation itself does allow recognition for bank investments in a region that includes a bank's local "assessment area." However, supplemental inter-agency Q&A guidance (revised January 6, 2009) presents two obstacles.

First, Q&A §__.12(h)-6 limits credit for regional investments to banks that are already adequately addressing the community development needs of their major assessment areas. The desire to address local needs is valid. However, a bank with numerous assessment areas may not be certain at the time it needs to make an investment decision that a subsequent examination will conclude that the bank has met this requirement. For example, after hurricanes Katrina and Rita

A $16.8 million low income housing tax credit investment from JP Morgan Chase helped finance the rental units shown above as part of an 11-phase HOPE VI redevelopment plan in Camden, N.J. The project, Carl Miller Homes, was completed in December 2008 and used solar panels to help meet power needs. Michaels Development was the developer, and the Camden Housing Authority provided significant additional funding.

in 2005, the banking regulators issued special policies encouraging banks nationwide to invest in rebuilding the Gulf Coast. One bank considered investing in the redevelopment of public housing in New Orleans. After checking with its regulator, however, the bank decided not to invest because it was told it had not invested enough in another market — even though the supply of LIHTC capital in that other market already far exceeded demand. As a result, LIHTCs in Louisiana are going unused, even though thousands of units are ready to begin construction. It should be possible to find another standard to encourage banks to meet local needs without discouraging regional investments.

Second, Q&A §__.12(h)-7 gives bank examiners discretion to grant less CRA credit for investments in large regions. However, many funds require regions as large as a quadrant of the country to be workable and efficient. Many banks are reluctant to invest in such funds because they will not know how much CRA credit they will get until they are examined perhaps a year or more later. A very large bank can avoid these obstacles and target its LIHTC investments to the locations where it will get the most CRA credit by investing directly or by enlisting LIHTC syndicators to set up a fund in which it is the sole investor. Ironically, these approaches divert money from the broader multi-investor funds that regional and local banks prefer. Adding sufficient flexibility should not require a statutory or regulatory change; the four federal banking regulators could jointly modify the Q&A guidance on the CRA.

3. **Fannie Mae and Freddie Mac could guarantee LIHTC investments made by others.** Because the future status of Fannie Mae and Freddie Mac is uncertain, it may not be practical for them to make new LIHTC investments for their own portfolios. However, they could use their considerable expertise to help restore the LIHTC investment market by guaranteeing investments made by others, including both banks and other less experienced corporate investors. In past years, other financial companies have provided such guarantees but are no longer in a position to do so. Guaranteeing LIHTC investments would provide a source of profit to the GSEs and credit risk protection for investors. The GSEs might also attract new investors by dividing what is normally a 15- to 17-year investment into shorter segments. The Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac as their conservator, could encourage and support this guarantee approach.

The LIHTC has been the linchpin in numerous successful public-private partnerships for over 20 years. As a public policy instrument, it has also helped to rehabilitate the reputation of federal housing production policies and was the model for new markets tax credits and other policy innovations.

Problems with home mortgages and commercial real estate have created a financial crisis and touched off a deep recession. LIHTC investments continue to perform well economically, but the financial crisis has curtailed new investments. A few new policies could go a long way to restoring the LIHTC investment market and the housing, economic vitality, and partnerships that depend on it.

For information, contact Buzz Roberts at (202) 739-9264 or broberts@lisc.org; http://www.lisc.org/.

Additional Resources Provided for LIHTC Projects

The American Recovery and Reinvestment Act (ARRA), approved by Congress in February, provides two resources to states to help start low income housing tax credit (LIHTC) projects that stalled because equity investments became less available.

HUD is administering $2.25 billion through the Tax Credit Assistance Program (TCAP). Under TCAP, Pennsylvania is receiving $95.1 million, New Jersey $61.2 million, and Delaware $6.6 million. Information on TCAP is available at http://www.hud.gov/recovery/tax-credit.cfm.

In addition, each state can convert into cash a portion of the LIHTC authority the Treasury Department allocates by formula. Each state can exchange up to 40 percent of its 2009 allocation and 100 percent of its unused 2008 allocation. States would use the HUD funds and cash received in exchange for LIHTC authority to fund housing development projects that meet LIHTC requirements. For further information, go to http://www.treas.gov/recovery/LIH-grants.shtml.

-Buzz Roberts

Delaware Enacts Payday Lending Law

Delaware Governor Jack Markell signed legislation regulating payday lenders. The signing took place at a July news conference at West End Neighborhood House (WENH), a Wilmington nonprofit that announced statewide expansion of its small loan alternative to payday loans. The nonprofit's small loan product, Loans Plus, provides same-day cash loans averaging from $300 to $500 for up to three months with interest rates that do not exceed 15 percent. WENH provides related services such as financial literacy education and the opportunity to establish or re-establish positive credit.

Governor Markell said at the signing, "Predatory lenders have devastating effects on our communities, and I'm proud that West End took the initiative to offer a safe alternative to high-interest payday loans. While Loans Plus helps people with the cash they need now, more importantly it helps them plan for the future and decrease their dependence on short-term loans."

The new law adds an annual surcharge of $1,500 per office for payday and title lenders in Delaware. The standard annual fee for all licensed lenders in Delaware, including payday and title lenders, is $250 per office. The surcharge on payday lenders will fund financial literacy education and promotion of low-interest community-based loan programs. The law limits a consumer's debt exposure on a title loan to the value of the vehicle.

In the past 18 months, West End has made $160,000 in loans to nearly 400 people, of whom 93 percent have successfully repaid their loans, WENH said.

WENH is making Loans Plus available statewide in a partnership with the United Way of Delaware, Wilmington Trust Company, Catholic Charities, and the YWCA. Other supporters include Barclays Bank, the Federal Home Loan Bank of Pittsburgh, ING Bank, and TD Bank.

For information, contact Barbara Reed, director of WENH's housing and financial management program, at (302) 658-4171, ext. 176 or breed@westendnh.org.

-Keith L. Rolland

Pennsylvania Law Covers Home Improvement Contractors

Pennsylvania's Home Improvement Consumer Protection Act, which became effective July 1, requires all contractors who perform $5,000 or more in home improvements in a year to register with the Pennsylvania attorney general's office.

Complaints involving home improvement or repair projects are one of the top subjects of calls to the attorney general's Bureau of Consumer Protection. In 2008, the attorney general's office received more than 2,100 consumer complaints involving home improvements and filed legal actions seeking more than $2 million in refunds, fines, and civil penalties against "no show" contractors and others doing substandard work.

Attorney General Tom Corbett said that the act is intended to protect consumers from unscrupulous contractors, provide new protection for consumers who hire home improvement contractors, and authorize criminal penalties for home improvement fraud.

"This legislation gives us new tools to identify and prosecute problem contractors," Corbett said. "It will also help consumers avoid frustrating and potentially expensive problems in the future."

Almost 32,000 Pennsylvania contractors have registered since registration started on March 23. All registered contractors are required to have at least $50,000 of personal injury liability coverage and $50,000 of property damage coverage.

Consumers can check the registration status of any home improvement contractor in Pennsylvania at www.attorneygeneral.gov or 1-888-520-6680. Consumers can also contact the Better Business Bureau, check contractors' references, and obtain multiple estimates.

Stimulus Bill Opportunities and Challenges for Delaware ... continued from page 5

meetings are open to the public. In addition to establishing an extensive stimulus-related website, we held a series of six "stimulus suggestion box" public meetings throughout the state, as well as four business opportunity meetings. In addition, we did targeted outreach to the Delaware nonprofit, disabilities, and faith-based communities.

A third challenge relates to the use of what is, by definition, a temporary funding stream. Many ARRA-funded programs contain standard federal grant language requiring that the funding supplement rather than replace state funding. This requirement needs careful thinking, since any new spending must not create an obligation down the line, when federal funding ends, that the state may be unable to afford.

We continue to be challenged to meet the law's dual goals of tight controls to avoid waste, fraud, and mismanagement and rapid expenditure of the funds to promote the quickest possible economic recovery. While these goals are not mutually exclusive, there is nonetheless a dynamic tension between the two. Tighter controls slow down spending, and rapid spending requires more strict controls. Finally, we all need to manage expectations about the stimulus package. Undoubtedly, it has created and will create and preserve jobs and stimulate the economy; it is also of considerable help in balancing our state's budget this year and next. But the stimulus money is not a panacea; there is not a federal stimulus dollar for every possible expenditure, nor will it fill Delaware's budget gap all by itself.

More information is available at http://www.recovery.delaware.gov.

States Fight Foreclosure Rescue Scams ... continued from page 7

agencies in the area, he said, adding that "most of the advertising will be on radio and television, although as we move into the more rural areas of Pennsylvania we will use more print ads and ads on gas pumps."

Delaware's marketing campaign will include advertising on billboards and buses about a state-directed website, www.deforeclosurehelp.org, and a hotline operated by the Delaware attorney general's Office of Consumer Protection at (800) 220-5424. Foreclosure prevention workshops will be listed on the website.

In addition, New Jersey provides a consumer brief, "Foreclosure Scams: How to Avoid Them," at http://www.njconsumeraffairs.com/brief/foreclosure.pdf.

Foreclosure Mediation Programs
New Jersey's Judiciary Foreclosure Mediation Program enables qualified homeowners who are facing foreclosure to receive help from HUD-certified housing counselors, licensed attorneys, and a neutral mediator to resolve loan delinquencies. Distressed homeowners can call the state's hotline at (888) 989-5277 or visit www.njforeclosuremediation.org.

A proposed court-supervised Residential Mortgage Foreclosure Mediation Program in Delaware is under review by the state's Superior Court. The program would require lenders' attorneys filing foreclosures to notify homeowners of the availability of a state hotline and of housing counselors who could assist them. Mediation sessions supervised by volunteer attorneys would be held in each county.*

For information, contact Bob Bobincheck at (717) 780-1801 or bbobincheck@phfa.org; www.phfa.org; http://www.state.nj.us/dobi/njhope/; James J. Savage at (973) 877-1280 or james.savage@dol.lps.state.nj.us; http://www.state.nj.us/dobi/njhope/; Matthew Heckles at (302) 577-5001 or matthew@destatehousing.com; www.attorneygeneral.delaware.gov/mortgageforeclosure; deforeclosurehelp.org; http://www.destatehousing.com/.

-Keith L. Rolland

A wide range of information on foreclosures, including community resources, is available on the Philadelphia Fed's Foreclosure Resource Center at http://www.philadelphiafed.org/foreclosure/.

*The Philadelphia Court of Common Pleas started a Residential Mortgage Foreclosure Diversion Pilot Program in April 2008.

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Calendar of Events

15th Annual New Jersey Governor's Conference on Housing and Community Development
September 22-23, 2009, Atlantic City Convention Center
For information, contact Carmen Santiago at csantiago@njhmfa.state.nj.us; http://www.state.nj.us/dca/.

Institute for Financial Literacy's Annual Conference on Financial Education
October 21 – 23, Hyatt Regency at Penn's Landing
The conference offers professional development for financial educators and the opportunity to learn about current trends and funding strategies.
For information, contact the institute at (207) 221-3611 or conference@financiallit.org; http://www.financiallit.org/default.aspx.

Housing Alliance of Pennsylvania's Annual Homes Within Reach Conference
December 9-11, 2009, Harrisburg, Pa.; www.housingalliancepa.org/events/.

SAVE THE DATE! Reinventing Older Communities
May 12-14, 2010, Hyatt Regency Philadelphia at Penn's Landing
This fourth national biennial conference organized by the Federal Reserve Bank of Philadelphia and sponsors examines issues confronting older communities, including the impact of the credit crisis on homeowners and communities and the opportunities generated by economic stimulus funds.
For information, contact keith.rolland@phil.frb.org.