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A New Safety Net for Low-Income Families

Beyond Shelter

Investing in Quality Affordable Housing

Supporting Young Children and Families

An Investment Strategy that Pays

Encouraging Entrepreneurship

A Microenterprise Development Policy Agenda

Strengthening Community Development Infrastructure

The Opportunities and Challenges of the Community Development Block Grant Program

Return on Investment

The Mixed Balance Sheet of Community Development Research

A New Look at the Community Reinvestment Act

Twenty-First Century Ownership

Individual and Community Stakes

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This publication is produced by the Community Development Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve's 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.

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CI Notebook

by Laura Choi

Editor

As we planned this issue of *Community Investments*, the timing of a new year and a new presidential administration inspired us to take a fresh look at some of the major policy issues affecting community development. This task seemed especially important given the current economic crisis, which will no doubt have a significant impact on low- and moderate-income communities. In addition, as the economy continues to tighten, funding shortfalls threaten to hinder community development efforts at a time when they are needed the most.

We believe that the current crisis presents an opportunity to rethink existing policies and consider how they might be improved. In that spirit, we highlight new ideas, innovations, and questions in this issue, considering what it means to truly invest in our communities and what role public policy can play in supporting the well-being of vulnerable communities, through both direct public spending and the leveraging of private resources. The topics range from established federal policies, such as the Community Reinvestment Act and the Community Development Block Grant program, to more recent movements such as stakeholder-driven community development and microenterprise. We hope the articles in this issue spur an ongoing dialogue in the field and push all of us to think critically about how to design policies that can address the challenges facing low- and moderate-income communities.

Happy New Year!



Laura Choi

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A New Safety Net for Low-Income Families

By Sheila Zedlewski, Ajay Chaudry, and Margaret Simms
The Urban Institute¹

During the 1990s, the federal government promised low-income families that work would pay. Parents moved into jobs in droves in response to new welfare rules requiring work, tax credits, and other work supports that boosted take-home pay. These policy changes were enacted during one of the strongest labor markets on record. A decade later, the labor market is tepid, and policies have to be re-evaluated keeping in mind the circumstances of today's families.

With so many so vulnerable, the nation needs new policies that make work pay in today's economy.

Low-income working families face the greatest risks in today's unpredictable economy. The proverbial economic ladder has largely disappeared: the wages of less-skilled workers have on balance either stagnated or fallen over the past two decades, making it difficult for many families to make ends meet. The loss of a job, a cut in work hours, a serious health problem, or an increase in housing costs can quickly push these families into greater debt, bankruptcy, or even homelessness. Most do not receive group health insurance coverage from their employers or qualify for unemployment insurance if they lose their jobs. Neither the government nor employers give them much of a safety net.

With so many so vulnerable, the nation needs new policies that make work pay in today's economy. This essay synthesizes an integrated set of policy proposals designed to establish a new safety net for low-income families. The policies are based on four principles:

- Work should pay enough to cover the basic costs of everyday family living. When full-time work fails to cover these costs, basic needs should be subsidized in ways that also promote greater work effort.
- Young children in low-income working families require quality day care and their parents must be able to combine a job with parenting so their children develop fully.

- Workers need access to training to move up the career ladder. This should include access to specialized supports when their underdeveloped or outdated skills, their health problems, or other factors put even the first rung of the ladder out of reach.
- Workers should be able to bridge employment gaps through unemployment insurance and accumulated savings.

Policies built on these principles would enhance low-income families' financial stability, expand investment in children, and fulfill the promise that earnings coupled with government work supports would enable parents to pay for their families' basic needs. Below, we profile specific policy recommendations that would help to achieve these goals, each developed by authors of the "New Safety Net" paper series published by the Urban Institute.

Making Work Pay

For many workers, a living wage remains elusive. The disparity between minimum wage income and the ever-increasing cost of basic needs places many families in financial jeopardy. To help make work pay, Gregory Acs and Margery Austin Turner recommend policies to enhance low-income families' purchasing power and reduce household expenses, in particular unusually high housing costs.²

Minimum wages and poverty

Box 1.1

The federal minimum wage increased to \$6.55 per hour on July 24, 2008. At this rate, a person working a 40-hour week for all 52 weeks in a year would earn \$13,624. According to the Department of Health and Human Services, the 2008 poverty line for a single parent with one child was \$14,000, and for a single parent with two children, it was \$17,600. A single parent trying to support a family on a full time minimum-wage job would qualify as poor.

The federal minimum wage was constant for a decade, from 1997 to 2007, at the rate of \$5.15 per hour. Wages increased in 2007 to \$5.85, then again to the current rate of \$6.55 earlier this year. The minimum wage will increase to \$7.25 per hour effective July 24, 2009.

The disparity between minimum wage income and the ever increasing cost of basic needs places many families in financial jeopardy.

Key among these policies is expanding the effectiveness of the earned income tax credit (EITC), a refundable federal income tax credit that supplements the wages of low-income workers. As a refundable credit, the EITC directly increases disposable income, thus creating a work incentive for low-income individuals. However, once earnings exceed about \$1,000 per month, benefits begin to “phase out,” meaning they are gradually reduced as earned income increases. Currently, families with two or more children phase out of the EITC more quickly than do families with one child. Extending the phase out threshold for larger families would encourage additional work and add a few hundred dollars to the annual disposable incomes of those just above the poverty threshold.

In addition, Acs and Turner propose making the child tax credit refundable, starting with the first dollar of earnings. The child tax credit is currently structured as a non-refundable credit that allows income-qualified parents to reduce their federal income tax liability by up to \$1,000 for each qualifying child under the age of 17. By making the credit refundable, families who have earnings at about one-half the poverty level (about \$10,000 for a family of three) would experience an increase in disposable income that would bring it more in line with the costs of necessities.

To make housing costs more affordable, Acs and Turner recommend a new refundable tax credit for both renters and owners. This credit would be available to families with earnings between \$10,000 and \$49,000 and would vary with the cost of decent housing in the community. Larger families and families living in high-cost housing markets would receive a larger credit, while those living in low-cost housing markets or paying less than fair market rent for their housing would receive a smaller credit. To encourage and reward work, the credit’s value would be greatest for families with earnings at or above the full-time minimum wage level. The amount would then remain the same (regardless of earnings increases) until earned income topped \$40,000, holding families’ effective housing expenditures down as their incomes increased. In effect, this would reduce the housing cost burden for low-income working families—especially in high-cost markets—while at the same time encouraging work and earnings.

Expanding the current tax credit incentives for state and local jurisdictions to increase moderate-cost housing production in geographic areas with the greatest need would

complement other changes designed to make housing more affordable. Acs and Turner recommend a 20 percent increase in the size of the Low Income Housing Tax Credit program, with revised targeting formulas that direct more tax credits to states where rental housing is in short supply (and fewer to states where the supply of rental housing is adequate). In addition, credits would be targeted to locations within these states where moderately priced rental housing is scarce.

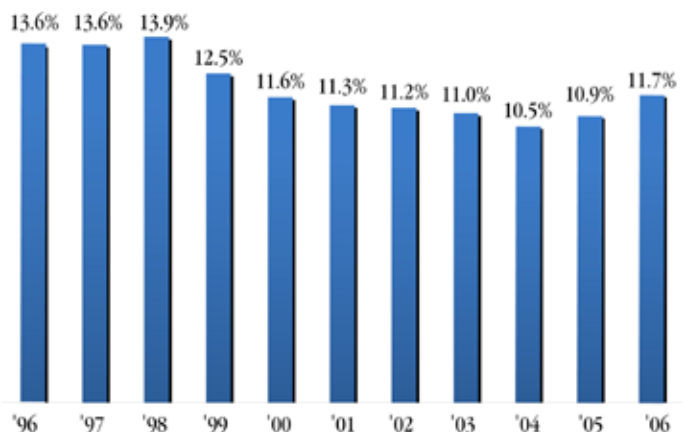
Guaranteeing Health Insurance

An estimated 45.7 million individuals, including 8.1 million children, do not have access to health insurance.³ Cynthia Perry and Linda Blumberg call for comprehensive health insurance reform that extends coverage to everyone. They recommend moving to an “individual mandate” system, a legal requirement that everyone enrolls in health insurance coverage that meets the minimum standards set in the law. They argue that limiting coverage to low-income working families might create a significant incentive for these families to hold earnings below the maximum eligibility level and, thus, to limit work. Also, with universal coverage in force, uncompensated care payments currently going to health care providers could be redirected to help finance a new, more efficient system of coverage.

The authors suggest that a politically viable, practical first step would be phasing in comprehensive reform by initially targeting the low-income uninsured.⁴

Perry and Blumberg argue that the new system would require new state-designed purchasing pools to offer health insurance to all non-elderly persons, including those with public or state employee coverage. State participation would be voluntary, but strong federal financial incentives would make participation attractive to most states. Federal subsidies would cover 100 percent of costs for those with incomes

Figure 1.1 *Percentage of Children Under Age 18 Without Health Insurance, 1996 – 2006*



Source: Employee Benefit Research Institute estimates from the Current Population Survey

below 150 percent of the poverty level and would gradually require families to pay a greater share of their incomes; families at 301 to 400 percent of the federal poverty level would pay up to a federal cap of 12 percent of their incomes. Families with incomes above four times the poverty level would not receive subsidies. Families that qualify for subsidies and have employer sponsored insurance would bring their employer's contribution to the pool to offset the government cost. Eventually the purchasing pools would be open to everyone (including employers on the same terms). Under this individual mandate, most workers would continue getting insurance through their employment (even though many employers might purchase insurance through the new pools), while those who may not have access to coverage through an employer would still be covered.

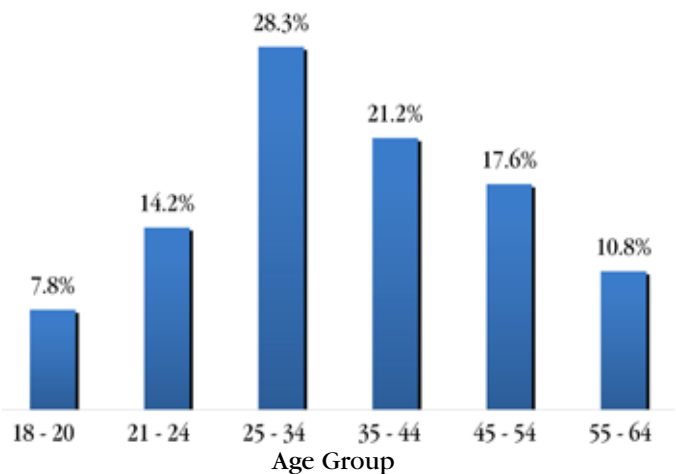
New policies are also needed to help parents advance to better-paying jobs and support parents finding it difficult to move into the labor market.

Supporting Children's Development in Working Families

Working families across the economic spectrum struggle to balance the demands of work and family, but the high cost of quality child care places an especially significant burden on low-income families. Shelly Waters Boots, Jennifer Macomber, and Anna Danziger suggest policies for enabling parents to improve prospects for their children and combine work with child rearing.⁵ They argue that there should be universal access to childcare, with the costs subsidized for low-income families. The costs of guaranteed child care assistance for low-income families would be shared by states and federal government and by families, whose co-payment would vary with income level as determined annually. The researchers propose instituting a child care quality rating system to help parents identify the best child care choices. They also recommend making the Early Head Start program a hub that links parents of infants and toddlers to such services as child care, nutrition programs, and health care.

Augmenting direct help with child care, the national sick leave policy proposed by the researchers would require employers to provide at least seven days of paid sick leave for employees working at least half time. With a national policy, businesses would not be put at a competitive disadvantage because of the state in which they do business. Meanwhile, the federal government should support state efforts to provide employee-financed paid parental leave as well as encourage more employers to permit flexible schedules.

Figure 1.2 *Percentage Uninsured Among Nonelderly Adults, 2006*



Source: Employee Benefit Research Institute estimates from the Current Population Survey

Moving Ahead in the Labor Market

New policies are also needed to help workers advance to better-paying jobs and support those finding it difficult to move into the labor market. Harry Holzer and Karin Martinson suggest competitive federal matching block grants that reward states for developing new career advancement systems.⁶ Initially, competitive grants would be awarded to selected states, providing matching funds for increases in public and private expenditures on the most promising approaches to training less-educated workers for good private-sector jobs and for other financial supports for low-income workers. To obtain the grants, states (or localities) must agree to spend more of their own funds than they now do on training for low-income workers and would-be workers. The authors would link new systems to current state workforce development structures and require partnerships with training providers (such as community colleges), employers, and support services that would allow parents to get training. These arrangements would make it easier for disadvantaged populations to participate in skill-building activities. The new systems would be selected competitively, with states required to evaluate their effectiveness annually.

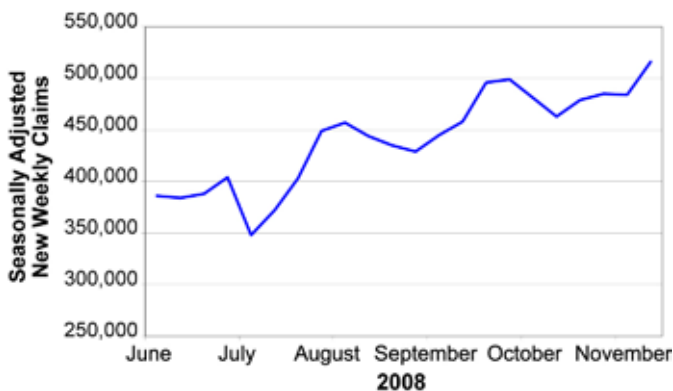
Pamela Loprest and Karin Martinson suggest a parallel initiative: offering states competitive matching grants to try to integrate programs that alleviate barriers to work (such as mental health and substance abuse services) with employment services and to evaluate these initiatives so policymakers can better understand what works.⁷ Currently, individuals with significant barriers to work often drop out of the labor force entirely. A competitive matching grant program would encourage states to innovate in how to provide 'wrap around' services, ensuring that families get the help they need as well as promoting work. The researchers also recommend some short-run changes to current programs that would serve that

same end—extending the amount of time that state welfare programs can allow recipients to spend in services designed to address barriers (such as mental health counseling or substance abuse treatment) and providing financial incentives to workforce development programs to serve more parents facing steep challenges.

Bridging Gaps in Employment

As family breadwinners, parents must be able to weather inevitable short-term gaps in employment. Margaret Simms recommends adopting the changes advanced in the Unemployment Modernization Act (UMA) along with some additional measures to address unemployed parents' needs.⁸ The UMA, introduced as part of the Trade and Globalization Assistance Act of 2007 (passed in the House in 2007 and awaiting vote in the Senate) would give states federal financial incentives to extend unemployment benefits to more workers, such as those with shorter work histories, those seeking part-time work, and those leaving jobs due to domestic violence, illness, disability of a family member, or relocation to accompany a spouse. The UMA also would provide extended payments for workers enrolled in approved training programs. Many states have already adopted some of these initiatives and if more did, children in low-income working families would not have to suffer short-term deprivation and the workers would have time to seek jobs that might provide better long-term prospects for them and their families.

Figure 1.3 *New Weekly Claims for Unemployment Insurance*
 Congress passed an emergency 13-week extension of unemployment benefits starting in July, 2008. Over 890,000 unemployed workers already have exhausted their 13-week extension, and another 1.2 million are projected to exhaust benefits by the end of 2008. Without these benefits, the Congressional Budget Office finds that about 50 percent of the long-term unemployed fall under the poverty line.



Source: Economic Policy Institute

Increasing the number of families on a solid economic footing will strengthen the nation's competitive advantage in the global economy.

To shore up big holes in the safety net for working families, Simms recommends increasing the share of wages that unemployment insurance replaces—currently about 35 percent of wages, on average—and providing benefits to more low-wage parents. All states should, she suggests, provide a uniform minimum of 26 weeks of benefits and add a small payment for dependents of low-wage workers. Another wise move would be switching from total wages earned to time worked in order to estimate workers' eligibility for unemployment insurance. Simms also recommends providing benefits to job-seeking women who have taken time out for childbearing/rearing or other family responsibilities, provided that these workers were eligible when they left the workplace.


Families also need savings to finance emergency needs and build their family's long-term economic security. Signe-Mary McKernan and Caroline Ratcliffe suggest a cluster of policies that would improve financial markets and savings opportunities for low-income families across the life cycle.⁹ One is increasing competition and regulation in the small dollar loan market, as a few pioneering credit unions and banks have already done, so that consumers are not paying exorbitant interest rates for access to short-term financing. Another is initiating savings accounts for all children at birth (see Box 1.2) with an initial government deposit of \$500 (restricting the use of funds until the child reaches age 18). The accounts would be tax-free for low-income families. Unlike other approaches to children's savings accounts which recommend restricting the use of funds for certain asset building activities (such as a college education), McKernan and Ratcliffe argue that a more flexible, universal approach will reduce administrative burden and encourage greater participation by financial institutions.

McKernan and Ratcliffe also propose other methods for increasing savings among low-income families. These include a dollar-for-dollar federal match on savings from EITC refunds deposited into long-term savings accounts (e.g., Individual Retirement Accounts [IRAs] and Individual Development Accounts [IDAs]) or used to buy U.S. savings bonds. Automatic IRAs could be used to promote retirement savings by requiring employers that do not offer a pension plan to directly deposit a small percentage of individuals' earnings unless the employee opts out. McKernan and Ratcliffe also propose allowing IDA funds to be used for vehicle

purchase, to avoid subprime auto loans that can carry annual interest rates of 25 to 30 percent. Under a complementary proposal, a national competitive grants program would be set up to fortify current state and local programs that help low-income families purchase and repair their vehicles.

Conclusion

The authors of these policy proposals argue that additional investments in low-income families are essential now. In the short run, achieving the goals behind the proposals would fulfill the promise of the new social contract introduced in the 1990s. In the longer run, the benefits of

implementing these initiatives will reach far beyond helping low-income families. Increasing the number of families on a solid economic footing will strengthen the nation's competitive advantage in the global economy. Surely, parents with health care, with jobs that provide benefits, and with just enough government support to make them confident that they can meet their families' basic needs will be more productive workers and more successful. Their children—nurtured in supportive families and positive learning environments—will contribute more to our future economy. Investment in a new safety net for low-income families will generate these valuable returns. 

Children's Savings Accounts

Box 1.2

Children's savings accounts (CSAs) are a broad set of proposals aimed at establishing financial security for children through the creation of a savings account for each child. The accounts may be established in the child's name, giving exclusive ownership and withdrawal privileges to the child in many cases. Depending on program design, funds accumulated in the account may be tax-exempt and protected until the child reaches maturity (most often age 18), at which point the money could be utilized for asset building or skill development, such as paying for college or vocational training.

Proponents suggest that CSAs provide economic stability for children's development, while also inducing positive changes in attitudes and behaviors. By establishing a savings platform at birth, parents and children can envision and work towards a future with expanded possibilities, increase their financial literacy skills, and develop a lifelong habit of saving. These benefits could be especially valuable for children from low- and moderate-income households who might otherwise lack access to even the most basic banking products.

There is no universal model for CSA program design. A variety of pilot programs and policy proposals are underway in the U.S. as well as internationally. Programs can vary significantly, with each mix of policies possessing a variety of strengths and weaknesses. Some key design features include:

- **Initial deposit** – Some programs provide initial seed money for accounts, typically in the range of \$500 to \$1,000. In some cases, children from low- or moderate-income households may receive an additional “boost.”
- **Milestone deposits** – Programs may offer one-time deposits at milestone events, such as graduation from high school.
- **Match rates** – Deposits into CSAs could be matched at various rates, up to certain limits. For example, at a 2:1 match rate, a child's \$10 deposit would be matched by \$20, placing a total of \$30 into the account.
- **Use restrictions** – While some models require that funds be used for specific approved purposes, such as education, other models suggest no use restrictions in order to reduce administrative oversight.
- **Institutional model** – Researchers are still debating the best institutional model for CSAs. Some favor a private sector model, while others believe programs should be administered publicly at the federal, state, or local level.



Beyond Shelter

Investing in Quality Affordable Housing

by Laura Choi

Introduction

The mortgage “meltdown” dominated much of the national discourse in 2008, working its way into presidential campaign speeches, Wall Street board meetings, and conversations along every Main Street in America. The far-reaching effects of this economic shock continue to make history, serving as reminder that housing is far more than the physical walls of shelter. As the demand for affordable housing (that which costs no more than 30 percent of household income) grows during these troubled economic times, investment and policy aimed at shoring up supply becomes increasingly important.

Affordable housing policy plays an especially important role in creating opportunities for low- and moderate-income (LMI) households. Decisions about where to live impact a family’s access to jobs, educational opportunities for children, quality of life and physical safety. However, for many LMI households, the high cost of housing limits their affordable rental options to sub-standard living conditions in poor neighborhoods, reducing access to important skill and asset building opportunities. But what constitutes “good” affordable housing and how can public policy direct investment towards the development of it? In this article, we examine existing policies and new proposals, drawing from the experience of seasoned practitioners and researchers in the field.

Increasing Investment Dollars

The Low Income Housing Tax Credit (LIHTC) program, created by the Tax Reform Act of 1986, drives a significant amount of private investment into affordable housing. The LIHTC program has produced more than two million affordable apartments over the past two decades, and adds another estimated 130,000 rentals to the country’s affordable housing inventory every year.¹

The program has enjoyed bipartisan support in the past, in part because it utilizes private sector investment rather than federal dollars. The Housing and Economic Recovery Act (HERA) of 2008 (H.R. 3221) included important changes to the LIHTC program, improving the development capabilities of practitioners during difficult economic times. Carol Galante, CEO of BRIDGE Housing, one of the largest affordable housing developers in California, supported the changes and commented that “the program doesn’t need a major overhaul, just tweaks to make it workable for the field.” One important policy change introduced in HERA was to temporarily fix the applicable percentage at

9 percent through December 31, 2013.² The applicable percentage was previously determined monthly by the IRS and was 7.93 percent at the time the bill was passed.³ The fixed percentage provides greater equity to a project, and this change could increase credits for a development by about 15 percent, enough to offset all or most of the recent drop in LIHTC prices.⁴ Other changes include the expansion of enhanced credits in high-cost areas and the simplification of the annual recertification process for qualified projects.

As the demand for affordable housing grows during these troubled economic times, investment and policy aimed at shoring up supply becomes increasingly important.

The turbulence in the credit markets has created a number of difficulties for LIHTC projects. Several major investors, including Fannie Mae and Freddie Mac, significantly reduced their purchases of new tax credits in 2008, reducing the availability of capital in the market. As mentioned above, the price of credits has also fallen; two years ago, LIHTC prices averaged about \$0.95 per dollar of credit. Today, the average is closer to \$0.85.⁵ This price decline has created significant turmoil in the syndication of tax credits and the potential loss in capital over the total credit allocation could be severe. The Federal Policy Project (FPP), a statewide coalition of nonprofit and government interests focused on advocating for improved federal housing policy and funding in California, recently proposed a plan for stimulating the economy through new federal investment in affordable housing. One FPP proposal, aimed at increasing liquidity in the debt and equity markets, is to make LIHTC refundable for investors, with an exemption of the refund from federal taxes to enable them to collect the value of the tax credit in any year where they do not have adequate income to claim it on their tax returns.⁶

Another federal initiative that encourages investment in affordable housing is the National Housing Trust Fund (NHTF), established as part of the Housing and Economic Recovery Act of 2008. It is the first new federal housing production program since the HOME program was created in 1990 and the first new production program specifically tar-

geted to extremely low income households since the Section 8 program was created in 1974.⁷ The NHTF was originally designed to receive funding from a percentage of the new business generated annually by Fannie Mae and Freddie Mac. The federal takeover of the two government sponsored entities in September 2008 creates some uncertainty for the Fund. Matt Schwartz, President of the California Housing Partnership, states that it will be two to four years before the NHTF is fully funded (an increasing proportion of the funds from Fannie Mae and Freddie Mac will be allocated to the NHTF until it is fully funded in 2012) and that “we have to wait and see how the organizations are reconstituted.” While NHTF dollars may take a few years to materialize, HUD’s Neighborhood Stabilization Program (NSP) will provide emergency assistance to state and local governments to acquire and redevelop foreclosed properties beginning in 2009. Mr. Schwartz stresses that an excellent use of NSP funds would be to promote affordable rental housing for low- and moderate-income households. He points out that “stable rental housing is an important rung on the housing ladder. People shouldn’t race to get up the ladder to homeownership; it’s clearly not right for everyone.”

Communities with Income Diversity

Ideally, affordable housing would provide not only shelter, but also opportunities for residents to experience social and economic advancement. Unfortunately, many public housing projects that were created with good intentions deteriorated into slums, resulting in a concentration of poverty and a cycle of disinvestment that isolated residents from opportunities for advancement. Policy makers responded by placing increasing priority on the need to deconcentrate poverty and introduced the HOPE VI program in 1992 to transform severely distressed public housing and promote income diversity. The program provides funds for the demolition of severely distressed public housing and the development of redesigned mixed-income housing.



North Beach Place is a HOPE VI project built in 2004 in San Francisco

But to what extent has HOPE VI increased income diversity in communities with public housing? A recent study found that over the last decade, the share of family units in “extreme poverty” neighborhoods, where at least two in every five residents are poor, has fallen by 40 percent.⁸ Also, a larger share of families living in public housing are working; 19 percent of public housing households with children rely on welfare as their primary source of income, a significant improvement from a decade ago when 35 percent of families depended on welfare as their primary income.⁹ However, critics of HOPE VI argue that new mixed-income communities are built at the expense of tenant displacement and the permanent loss of large amounts of guaranteed affordable housing.

In response to some of these criticisms, proponents and critics alike have recognized the need for policy changes in HOPE VI that better align program goals and outcomes. The House of Representatives passed the HOPE VI Improvement and Reauthorization Act of 2007 (H.R. 3524) in January 2008, which authorizes appropriations for the program through 2015. The bill specifies requirements for mandatory core components of revitalization plans, including among others: (1) involvement of public housing residents in planning and implementation; (2) a program for temporary and permanent relocation, including comprehensive relocation assistance; (3) a right for resident households to expanded housing opportunities; (4) one-for-one replacement of demolished dwelling units, including onsite and off-site mixed-income housing; (5) monitoring of displaced households; and (6) green developments. A similar bill was introduced in the Senate (S. 829) but has yet to go through the Senate Committee on Banking, Housing and Urban Affairs.

Transit Oriented Housing Development

The rise in transportation costs has become a pressing national issue for households across the income spectrum. A recent study by the Center for Housing Policy found that working families across 28 metropolitan regions spend about 57 percent of their household income on the combined costs of housing and transportation.¹⁰ This high cost burden leaves little income to be distributed across other vital household expenditures, such as food, childcare, education and health insurance. In the past, families may have been able to save on their housing costs by moving to more affordable suburban neighborhoods, but the increasing transportation costs associated with having to travel further distances to work and other recreational activities have dramatically reduced these savings. One study found that for every dollar a working family saves on housing, it spends 77 cents on increased transportation.¹¹ The Housing + Transportation Affordability Index is an online tool that helps measure the “true affordability” of housing; the tool’s dynamic maps reveal that housing affordability is significantly impacted when transportation costs are taken into account.¹²

Shelley Poticha, CEO of Reconnecting America, a national non-profit organization working to integrate transportation systems and the communities they serve, points out that linking affordable housing and access to transit can lead to substantial savings for LMI households. However, the creation and preservation of transit-rich affordable housing faces difficult challenges. First, Ms. Poticha points out transit-oriented locations often provide other desirable amenities, making the land extremely costly. Market based demand for such real estate far exceeds supply, resulting in more market-rate units for higher income households as non-profit developers of affordable housing face prohibitively high land costs. Second, federal and state policies related to housing and transportation have historically been developed in separate agencies, with virtually no integration.

One of the primary recommendations for addressing these challenges, according to Ms. Poticha, is greater interaction between the Federal Transit Administration (FTA) and the U.S. Department of Housing and Urban Development (HUD) around these issues. The two agencies recently partnered for the first time on a study conducted by Reconnecting America exploring options for expanding housing near transit.¹³ Some of the policy recommendations from this study include: (1) Create incentives for local jurisdictions to build at transit-appropriate densities, such as reduced parking requirements or specific funds allocated for developments located in transit corridors, (2) Create transit oriented development land acquisition/land banking funds which would enable the early purchase and preservation of land around transit corridors for affordable and mixed-income housing use, and (3) Coordinate long range housing and transportation plans across federal agencies to more effectively use housing and transportation funds and address regional needs.¹⁴



The Pearl District in Portland, Oregon offers transit-rich affordable housing options (Photo credit: Reconnecting America)

Access to Services for Residents

Providing access to services relevant to LMI populations creates the potential for significant change at the individual, household, and community level. Job training, counseling services, financial education, asset building programs, or public health initiatives create important opportunities for social, personal, and economic advancement among affordable housing residents. Katie Parker, Resident Services Director for Intercommunity Mercy Housing in Seattle, WA, stresses that affordable units should be located near these services to encourage residents to take advantage of them. “These services need to happen where people live,” she says, pointing out that while on-site services are preferred, off-site services also provide significant value, as long as tenants have knowledge and access to these services. Ms. Parker also emphasizes that resident services can have a positive impact on the financial performance of affordable housing properties. A recent study by Mercy Housing and Enterprise Community Partners found that the provision of resident services was correlated with reduced vacancy losses, legal fees and bad debts. The cost savings from these reductions were \$225 per unit and \$356 per unit in 2005 and 2006, respectively.¹⁵

Despite the positive impact of resident services, investments in affordable housing focus almost exclusively on physical structures and the basic management required to maintain them.¹⁶ To address the limited public investment in resident services, the National Resident Services Collaborative (NRSC), created in 2003 by founding members Neighborworks America and Enterprise Community Partners, put forth a federal funding and policy agenda for 2008-2010. One of the NRSC federal funding goals is to secure federal resources for a multi-year demonstration program with a rigorous evaluation component. The evaluation would identify the impact of housing-based service coordination on various measures of family well-being and the financial performance of the property, as compared to similar properties without resident services. The underlying motivation for this research effort is to “convince affordable housing stakeholders and policy makers to make housing financing systems more favorable to family resident services.”¹⁷ As part of this effort to coordinate resident services with project financing, NRSC also recommends that HUD extend authority to nonprofit owners to use operational funds and recapitalization proceeds to support resident services in all properties with HUD funds. In addition, the policy agenda suggests that federal agencies should provide funding for affordable housing to permit services and/or service coordination as an above-the-line expense in their respective project underwriting policies.

Housing with Access to Economic Opportunities

The lack of affordable housing near jobs for low-income workers continues to be a barrier to accessing economic opportunities. Regional growth patterns have moved jobs

and residents away from central cities. Roughly two thirds of urban residents live in suburbs and three fourths of jobs are located there, while over half of the metropolitan poor live in cities and the suburban poor may still live far from their jobs.¹⁸ While transit oriented development, as discussed above, plays a significant role in developing affordable housing near economic opportunities, other strategies should also be considered.

The Regional Employer Assisted Collaborative Housing (REACH) program allows employers to offer rent and home ownership subsidies to income-qualified employees, increasing affordable housing options near these economic opportunities. Mary Erickson Community Housing, a non-profit corporation serving greater Southern California, administers the program for the St. Regis Monarch Beach Resort in the City of Dana Point, CA. The turnover rate among program participants is less than 12 percent, a significant cost savings to the employer in an industry where non-management turnover is approximately 50 percent.¹⁹

Jacque McCord, Director of Programs at Mary Erickson Community Housing, stresses the importance of federal policy in encouraging employer assisted housing to create access to opportunity. While some states, most notably Illinois, have introduced tax credit policies to support employer assisted housing, proposed federal legislation through the Housing America's Workforce Act, federal bill S. 1078 and H.R. 1850, would offer a \$0.50 federal tax credit for every dollar of qualified employer assisted housing investment for low- and moderate-income workers. "I see this bill as a holistic approach to the economic, housing, and environmental challenges we face. Though I do not believe it is an employer's 'responsibility' to provide housing assistance, it may be the new best practice of doing business. This bill offers an employer the opportunity to reap some benefit for establishing this new best practice," says Ms. McCord.

Environmentally Sustainable Development

The benefits of going green have been widely documented and the field of affordable housing is well positioned to deliver these advantages to residents. Such benefits include reduced exposure to harmful chemicals through the use of environmentally conscious building materials, as well as significant cost savings from reduced energy and water consumption through the use of efficient appliances. Over the past five years, new technology, products and expertise in environmentally sustainable design and construction have become more widely available, allowing green affordable housing to be developed at a cost not significantly different from that of conventional design.²⁰


Policy makers have responded to increased public awareness and demand for green development by introducing a variety of policies that encourage green affordable housing development. The GREEN Act introduced by Rep. Ed Perlmutter of Colorado sets forth provisions concerning HUD energy efficiency and conservation standards and green building standards for structures.²¹ Among other

As the links between housing and other policy areas become readily apparent through further research, policy makers need to respond with an integrated approach.

provisions, the Act requires the Secretary of HUD to establish incentives for developers to increase the energy efficiency of multifamily housing; to conduct a pilot program to facilitate the financing of cost-effective capital improvements; and to make grants to nonprofit organizations to increase low-income community development capacity. In addition to the GREEN Act, the HOPE VI reauthorization bill also includes green policies. The reauthorization bill includes a provision of \$800 million annually from 2008-2013 for mixed-income communities that incorporate Green Communities Criteria, the framework for sustainable affordable housing set forth by Enterprise Community Partners. This is the first time the House has passed a bill authorizing holistic environmental principles in a major housing program. Additionally, HUD recently announced the availability of \$1 million in grant funds to expand the supply of energy efficient and environmentally-friendly housing that is affordable to low-income families, using design and technology models that can be replicated.

State and local efforts to spur green development have also taken place. Between 2005 and 2007, 36 state housing agencies added significant new green policies to their Low Income Housing Tax Credit programs, ensuring that newly developed affordable rental housing is also energy efficient.²² In addition, a number of state and local governments have initiated policies mandating certain green development practices, such as the City of Denver which will require all affordable housing projects applying for city funding to meet the Green Communities Criteria as of January 2010.²³ For more information on environmentally sustainable practices in community development, please see the Summer 2008 "Green Issue" of *Community Investments*.

Conclusion

Housing affects multiple aspects of our lives, yet housing policy has historically developed in its own silo. As the links between housing and other policy areas, such as transportation, economic development, and the environment, become readily apparent through further research, policy makers need to respond with an integrated approach. Federal agency collaboration and public-private partnerships lay a strong foundation for future investment in affordable housing. The potential impact of this investment reaches beyond shelter; high-quality affordable housing could transform low- and moderate-income communities across the 12th District, and the nation as a whole. 



Supporting Young Children and Families

An Investment Strategy That Pays

By Julia Isaacs

The Brookings Institution and First Focus¹

In the United States, public investment in children typically does not begin until they are age five or six and enter a public school system. Until that time, we regard the care of young children as the almost exclusive domain of parents, relying on them to provide an environment that will promote healthy physical, intellectual, psychological, and social development. Good care early in life helps children to grow up acquiring the skills to become tomorrow's adult workers, caregivers, taxpayers, and citizens. Yet today, many parents are stretched thin, in both time and money, trying to care for their young children, while early in their own careers. Parents across the socioeconomic spectrum struggle to balance both their children's developmental needs and the demands of their employers.

Increasingly, research has demonstrated that investing in high-quality services for young children and their parents produces significant returns, both to individuals and to the larger economy.

Increasingly, research has demonstrated that investing in high-quality services for young children and their parents produces significant returns, both to individuals and to the larger economy. For instance, biomedical research shows that the development of neural pathways in the brains of infants and toddlers is influenced by the quality of their interactions with other people and their surroundings. Rigorous evaluations of a number of early childhood programs reinforce the lessons of brain research. Children who participate in effectively designed preschool programs achieve more in elementary school, are less likely to be held back a grade or to need special education, and are more likely to graduate from high school. Addressing gaps in skills at an early age gives more children from disadvantaged families a fighting chance to achieve the American Dream.

Despite this growing body of research on the importance of the early years on development and achievement, the federal government has provided little direct support

to young children and families. However, there has been a significant change at the state government level, with a majority of states adopting public pre-kindergarten programs and other forms of early childhood intervention. In addition, attitudes toward public investment in the pivotal early childhood years are shifting, and the time is ripe for federal leadership in developing policies to support young children and their families as a key part of a domestic policy agenda. Below, I outline three policy proposals that have proved cost-effective and that can help to reduce burdens on young families.

Preschool Education for Three- and Four-Year Olds

The first recommendation is to invest federal resources in supporting high-quality early education experiences for three- and four-year old children, providing them with the building blocks for future success in school, the workforce, and society.

What is needed is a universal but targeted pre-school program, under which the federal government would fund a half-day of high-quality pre-kindergarten services for children from low-income families and a partial (one-third) federal subsidy for services to children in higher-income families, as in the National School Lunch Program. Families qualifying for free school lunches or Head Start—that is, those with family incomes below 130 percent of poverty—could enroll their children at no cost. Families at higher income levels also could participate, but a combination of parental fees and state and local funding would be needed to cover program costs not covered by the federal subsidy.

To be eligible for federal funding, programs would have to meet national standards for critical design elements, such as: class size, child-to-staff ratios, staff qualifications, and activities to involve parents. Pre-kindergarten programs would be required to provide, directly or through partnerships with other organizations, additional hours of child care coverage for children of working parents. Curriculum choices would be left to local programs, but should meet state guidelines for early learning and school readiness.

The estimated cost to the federal government of such a proposal, if fully funded for all families that choose to participate, would be \$18 billion in new spending annually.²



Christina Baker (right) of Nurse-Family Partnership counsels a new mother. Photo credit: Nurse-Family Partnership

This funding level includes \$13.3 billion for the “free” portion of the preschool program, \$8.6 billion for the federal share of the partially subsidized portion, \$2.4 billion for “wrap-around” child care for working parents, and \$20 million in research and demonstration projects to study and refine the key dimensions of program quality.³ The long-term economic benefits of this investment could be large: cost-benefit research by economists at the Federal Reserve Bank of Minneapolis has shown annual rates of return, adjusted for inflation, ranging between 7 percent and 18 percent for high quality early education programs.⁴

Nurse Home Visiting for Infants and Toddlers

Children under age three are the next priority for targeted investments. It would be a grave mistake to ignore infants and toddlers during the expansion of pre-kindergarten programs for four-year olds. Differences in home environments and parent-child interactions associated with family income make significant differences in children’s skill levels by the time they reach age three. Federal programs that focused exclusively on three- and four-year olds could pull funding, trained caregivers, and other resources away from infants and toddlers, to these children’s detriment.

Rigorously designed research has produced ample evidence of positive effects—and cost-effectiveness—of the Nurse-Family Partnership model developed by David Olds and his colleagues. Under this program, public health nurses visit the homes of low-income families expecting the birth of a first child, offering support at a time when young mothers are highly motivated to make healthy choices for themselves and their new infants. Visiting the home from pregnancy through the baby’s second birthday, nurses provide carefully chosen information and guidance on ways that families can assure their new baby’s optimal health and development. Local programs are carefully monitored to determine whether they are continuing to successfully engage and retain parents’ active participation.⁵

This program should be available to all low-income pregnant women expecting their first birth. Low-income women could be defined as those with incomes below 185 percent of poverty, as defined for the WIC program (which serves a similar population of low-income pregnant women, infants, and children). The cost for serving all eligible women nationwide who chose to participate would be \$2 billion under an 80/20 federal/state match.⁶

In return, society could expect many positive results such as: longer time before a second birth, reduced risks of child abuse and injury, higher levels of maternal employment; improvements in the child’s cognitive, social, and emotional outcomes through elementary school; and reduced juvenile crime. Benefit-cost studies estimate \$2.88 in benefits for every \$1 spent on this program, through reduced criminal activity, greater employment, higher tax revenues, and reduced welfare costs. The program has been thoroughly tested in three diverse settings (Elmira, New York; Memphis, Tennessee; and Denver, Colorado), and has been replicated in 150 sites across 21 states, making it a proven candidate for investment.

Paid Parental Leave

Unlike the nurse-home visiting initiative, which would be targeted to at-risk mothers, the third priority for policy change—paid parental leave—would assist all new parents, regardless of income, as they struggle to balance family and financial pressures. Our nation’s family leave policy (the Family Medical and Leave Act, or FMLA) provides up to 12 weeks of unpaid leave for parents working for public or private employers with 50 or more workers. Many parents cannot afford to lose income for three months, and are thus unable to benefit fully. And there is no job protected leave for the half of the private sector workforce employed by smaller establishments.⁷ As a result, a great many new parents must return to work before they have time to bond adequately with their infants or to gain important health and financial benefits.

A year of combined maternity and paternity leave, largely paid leave, is common in other member-countries of the Organisation for Economic Co-operation and Development (OECD). The United States and Australia stand out as the only two OECD countries with no paid maternity leave. Moving to 12, or even six, months of paid family leave would be a radical step for the United States. A more modest expansion to 12 weeks of paid leave is probably more possible in our political and economic climate, and still would help infants toward a healthier start in life and reduce the risk of job loss and economic adversity for parents of young children. Paid parental leave, by providing a benefit valuable to families of all income levels, provides an important complement to the two earlier proposals. Moreover, adoption of a national-state initiative of paid parental leave would put us on record as a country that values parents and families.

The federal government should work with the states on setting up pooled funds to provide employee-financed paid parental leave to eligible working parents. California’s Paid Family Leave program could serve as a model for other states

(as it already has for programs in Washington state and New Jersey). California’s program provides six weeks of coverage over 12 months after the birth or adoption of a child, with benefits equal to about 55 percent of wages. The California system, which paid out \$368 million in benefits in 2006, is completely financed by an increase in the employer–not employer–share of payroll taxes for the State Disability Insurance system.⁸


As an incentive for state participation, and to provide for a longer leave period, the federal government could match each week of coverage provided by the state, up to a maximum of six weeks. Thus, if states provided six weeks of paid leave, the combined federal and state funds would allow 12. Federal costs might be in the neighborhood of \$1 billion to \$3 billion annually, depending on how many states participate and how closely their benefits resemble those provided by California.

In conjunction with establishing a federal-state paid leave initiative, the president should work with Congress to amend FMLA so that employees in smaller firms also have access to

12 weeks of job-protected leave, which would be paid leave in states opting into the new paid leave initiative.

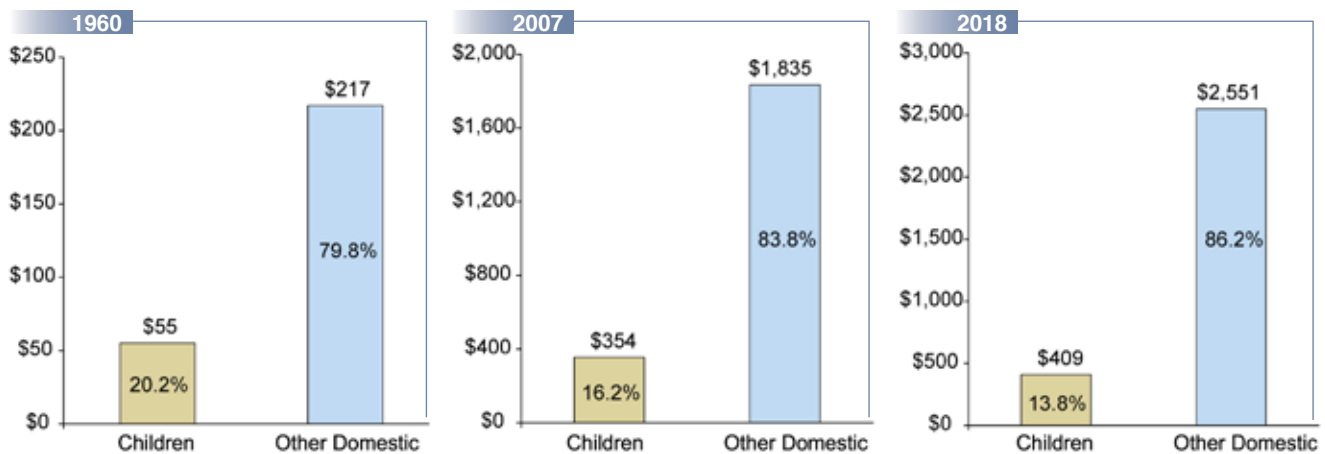
Conclusion

Growing evidence on the critical importance of children’s early years is changing public attitudes toward early childhood programs. If we want all children to enter school ready to learn, public investment in children cannot wait until kindergarten. Tight government budgets require that any new spending stand up to sharp scrutiny.

Fortunately, there is ample evidence of successful programs that make a difference in the lives of children. The three policies outlined here emphasize programs of proven effectiveness, balancing investments targeted on at-risk families with support for all families and underscoring the country’s strong family values. Adopting a well designed package of investments in children from birth to five will improve children’s health, school achievement, and opportunities for future economic success—and thus, will be good for the country as a whole as well as for the children. 

Spending on Children *The projected federal spending trends on children will continue declining into the next decade.*

Figure 3.1 1960 - 2018: Levels of Federal Children’s Spending versus Other Domestic Spending (in Billions of 2007 Dollars)



Source: *New America Foundation and the Urban Institute, 2008*



Encouraging Entrepreneurship

A Microenterprise Development Policy Agenda

*By Joyce Klein, Senior Consultant, the FIELD program of the Aspen Institute
Carol Wayman, Senior Legislative Director, CFED¹*

For more than 20 years, community-based microenterprise programs have been assisting emerging entrepreneurs start and sustain small businesses. They work with home day care providers, landscapers, caterers, salsa makers, woodworkers and car service owners. Their primary customers are women, racial and ethnic minorities, immigrants, individuals with disabilities, people with prison records and others who lack access to banks, business networks and paid sources of management expertise. In helping these entrepreneurs to start and grow their businesses, microenterprise programs provide classes in business management, marketing advice, access to loans and matched savings, financial education and peer networks.

These microenterprises, generally defined as very small businesses with five or fewer employees, play an important role in the U.S. economy. There are nearly 25 million microenterprises in our nation's urban and rural areas. They make up nearly 90 percent of all business establishments, and are important providers of goods and services in local communities.²

As our nation faces an economic recession and a crisis in its financial sector, the tightening of business credit will likely hit these enterprises the hardest. In fact, microenterprise programs are already seeing demand from more advantaged entrepreneurs who can no longer access traditional financing sources. At the same time, however, it is precisely these small businesses that will play a key role in creating needed new jobs and income – especially for the individuals and communities likely to be hardest hit by these economic forces.

As we move into a new presidential administration, there are a number of opportunities for public policy to help microenterprise programs support emerging entrepreneurs as they contend with the current economic environment. As we describe below, policy can play a key role in five areas:

- Expand the existing infrastructure of community-based microenterprise programs that provide technical assistance and financing;
- Implement policies that expand access to private markets and sources of capital;
- Craft tax policies that aid emerging entrepreneurs;
- Enable low-income individuals to use entrepreneurship as a pathway out of poverty; and
- Provide access to affordable health care to small businesses and microenterprises.

There are a number of opportunities for public policy to help microenterprise programs support emerging entrepreneurs as they contend with the current economic environment.

Expand the Existing Infrastructure of Community-based Organizations Supporting Entrepreneurs

Over the past two decades, the federal government has invested in nonprofit organizations that help low-income and disadvantaged entrepreneurs to start and sustain businesses. These programs are operated through a half-dozen agencies. The three most highly targeted programs are the Microloan, PRIME, and Women's Business Center programs, administered by the Small Business Administration, which offer small start up loans to entrepreneurs as well as funding for training, counseling and technical assistance to minority, women, and low-income entrepreneurs. Other important microenterprise support programs include the Community Development Financial Institutions (CDFI) Fund, the USDA's Rural Business Enterprise Grants and Intermediary Relending programs, the Department of Health and Human Services' Job Opportunities for Low Income Individuals, and the Community Development Block Grant, which many cities and counties use to fund local microenterprise efforts. Nearly all of these programs experienced severe funding cuts during the Bush Administration; reinstating full funding and even expanding these programs would provide an important boost to the nonprofit community organizations that provide technical assistance and financing to small businesses. Expansion of this existing infrastructure may well be on the agenda of the incoming administration, as during his campaign President-elect Obama stated his support for microenterprise development and expanded small business opportunities. He proposed providing additional resources to economic development agencies such as the SBA, and investing \$250 million in the creation of public-private business incubators in underserved communities across the country. President-elect Obama also proposed the

creation of a small business and microenterprise initiative for rural communities.

In addition to federal programs that provide resources to emerging entrepreneurs, the federal government can provide additional sources of sorely needed capital for microenterprise and other community and economic development efforts:

- The Housing and Economic Recovery Act of 2008 (PL: 110-289) enabled Treasury-certified CDFIs to join the Federal Home Loan Bank (FHLB) system. Membership provides CDFIs with access to collateral, which could increase their access to low-cost lending capital. Lenders are eager to review the rules developed by the Federal Housing Finance Agency.
- The Full Faith in Our Communities Act of 2007 (S. 2528) would provide below market-rate capital in the form of a bond guaranteed by the U.S. Treasury Department to a nonprofit lender for community or economic development purposes for low-income people and communities.
- Advocates are supporting efforts to permit Congress to create an economic development grant program, which would provide grants for community economic development purposes to organizations including microenterprise development organizations and CDFIs. The program would be analogous to the FHLB's Affordable Housing Program, which provides a subsidy to developers for the cost of owner-occupied and rental housing for low-income households.

A number of other policy changes could enable entrepreneurs to build their own sources of capital, and to access it through the private market.

Implement Policies that Expand Access to Private Markets and Sources of Capital

The federal government can also play an important role in expanding the ability of low-income entrepreneurs to access private sources of capital. In fact, the Community Reinvestment Act (CRA) encourages financial institutions to support microenterprise initiatives by providing favorable CRA treatment to both loans to and investments in microenterprise programs. As a result, many microenterprise organizations count financial institutions among their key partners. Currently, CRA reporting includes only the census tract in which the small business loan was made. Ideally, the CRA would be expanded to require the gender, racial, income (or sales) characteristics of the business borrower to determine whether the actual loans are received by small, locally-owned enterprises or franchises of corporate chains.³

Table 4.1 *Microenterprise businesses comprise a significant portion of the market that provides job and economic development opportunities in the 12th District.*

State	Total Enterprises	Percent of Businesses that are Microenterprises w/Employees
Alaska	62,462	89.89
Arizona	429,031	87.63
California	3,087,607	88.99
Hawaii	104,529	87.18
Idaho	131,244	87.78
Nevada	195,353	88.02
Oregon	306,966	86.57
Utah	212,082	88.93
Washington	486,504	86.51

Source: Association for Enterprise Opportunity

A number of other policy changes could enable entrepreneurs to build their own sources of capital, and to access it through the private market. One such reform would permit full reporting of utility and telecom payment information to consumer reporting agencies. Under current practices, typically only late payments are reported. Reporting of timely payments could raise the credit score of millions of Americans, moving many African American, Latino, and young people into a prime rate credit score, giving them access to lower-cost private capital. At present, many utility firms' counsels believe that full payment reporting may be prohibited by The Telecom Act of 1996, a legislative effort to move all telecommunications markets toward competition, and some states prohibit full payment credit reporting. Both Congress and states could take steps to rectify this issue and provide clear regulatory authority.

Allowing individuals to access their retirement accounts for business investment as easily as they can for homeownership and college education would open the door to another source of private capital. Employer-based retirement accounts are the primary source of savings for Americans. In addition, there are employer matches and federal tax benefits including the Saver's Credit that help these plans grow in value. At present, individuals can access their IRA and 401(k) to purchase a house or pay for higher education. However, increasingly older Americans are turning to self-employment as a second career, or as a supplement to their retirement income. It is possible to capitalize a business with retirement funds if a person sets up a separate C corporation and creates a profit sharing retirement plan within that corporation, but this option can be complex and time-consuming.⁴ Allowing older entrepreneurs, and others, to more easily borrow against their retirement savings could support their efforts.

Microloan Program

The Microloan Program provides very small loans to start-up, newly established, or growing small business concerns. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of \$35,000. The average loan size is about \$13,000. Applications are submitted to the local intermediary and all credit decisions are made on the local level. Each intermediary is required to provide business based training and technical assistance to its microborrowers. Individuals and small businesses applying for microloan financing may be required to fulfill training and/or planning requirements before a loan application is considered.

PRIME Program

The PRIME Program is a complement to the Microloan program, providing grants to microenterprise development organizations throughout the country to offer valuable training and technical assistance to low-income and very low-income entrepreneurs, regardless of whether they are seeking a loan. PRIME also provides limited grant funding for capacity building among community-based microenterprise organizations. The funds allow microenterprise development organizations to build their management, outreach and program design capacity to more effectively serve their clients.

Women's Business Center

The Office of Women's Business Ownership and the Women's Business Center provide valuable training and counseling services. This network of over 100 centers throughout the country is designed to assist women achieve their entrepreneurial goals and improve their communities by helping them start and run successful businesses through training and technical assistance.

Source: U.S. Small Business Administration

The Historically Underutilized Business Zone program at the Small Business Administration provides incentives for federal agencies to contract with businesses located in low-income distressed communities. Unfortunately, this contracting provision is rarely implemented. At the same time, recent reports indicate that the federal government has not met its small business contracting targets, and a number of larger firms have erroneously received preferences under these policies. Enforcement of these programs must be improved.

In addition, as the country works to address its energy and environmental challenges, policy makers should consider the role that small businesses and microenterprises can play in these initiatives. For example, President-elect Obama has stated his support for businesses that advance energy technology, and for ensuring that "21st century jobs" are increased throughout the country. Within these initiatives, it will be important to recognize the roles that very small businesses can play in supporting the "greening" of our economy.

Create Tax Policies that Support Emerging Entrepreneurs

In her 2006 Report to Congress, the National Taxpayer Advocate, Nina E. Olson, stated that the IRS's Small Business/Self-Employed division was not adequately helping small business filers.⁵ She cited the "complex tax laws" and the inability of many small business taxpayers to afford professional tax advice. Rather than serve as a welcoming gateway that helps new businesses to "get their business

right" and to grow, the Schedule C tax interface (part of the Form 1040 used to report profit or loss from business) tends to have the opposite effect and taxes are not filed. There are several ways the IRS could create a more welcoming environment:

- Create a self-employment tax credit. President-elect Obama has proposed the creation of a "Making Work Pay" tax credit that will assist all workers, including the self-employed. With the tax credit, each worker in America would receive a \$500 tax credit to offset federal income and payroll taxes;
- Encourage the IRS to actively extend the capacity of its successful Voluntary Income Tax Assistance (VITA) program to serve low-income taxpayers with self-employment income (the program offers free tax help to low- and moderate-income people who cannot prepare their own tax returns). Currently many IRS offices discourage or forbid volunteers from filing Schedule C self-employment returns;
- Advocate that the recently passed "community VITA" appropriation, which provides \$8 million to be available through September 30, 2009, be used to establish VITA demonstration projects to serve low-income, self-employed households;
- Require the IRS Small Business/Self-Employment division to expand its "first-time filer" initiative through demonstration projects that would explore how the IRS and non-profits can better serve this constituency; and

- Ask Congress and the IRS to study the specific needs of first-time filers and how to better resolve the cash-flow dilemma faced by the self-employed.

Enable Low-Income Individuals to Use Microenterprise as a Pathway Out of Poverty

Many of our lowest income Americans turn to self-employment as a means to create a job or to supplement a low-wage job. But too often, federal programs that support these individuals – by providing a safety net or workplace skills – fail to recognize that self-employment can and should be an option. For example, asset limits in programs such as the Supplemental Nutrition Assistance Program (SNAP, previously known as the Food Stamp program) and Temporary Assistance for Needy Families (TANF) make it difficult for recipients to save and acquire business assets, while training initiatives for recipients of these supports often do not offer self-employment as an option. And even when policy makers do find ways to support the self-employment option under current law, caseworkers often struggle with how to deal with these atypical cases. We recommend four steps that policy-makers can take to open the self-employment path for our poorest Americans.

Microenterprise is a time-tested wealth creation strategy, particularly for the low-income and minority communities that are at financial peril in the current economic climate.

First, both state and federal policy makers should reform the asset means tests in public assistance programs, such as SNAP, TANF, and Supplemental Security Income (SSI). States currently have the flexibility to raise or remove the asset limits from SNAP and TANF and should take advantage of it. States also have the option of exempting certain classes of assets from their asset means test, so that individuals are not hindered from building up the resources and assets needed to achieve self sufficiency. Since 1996, a number of states across the country have taken advantage of the opportunity to reform their asset limits. To date, 15 states have eliminated asset tests for SNAP and several states have implemented TANF asset test reform by abolishing the limits or raising them substantially.

Table 4.2 *Size Estimates of Key Components of the Market for Microenterprise Services*

Market Segment*	Number of Microentrepreneurs
Microenterprises with difficulty accessing bank financing	10.8 million
Women-owned microenterprises	5.13 million
Business owners with personal incomes <\$10,000	4.3 million
Low-income self-employed individuals	1.7 million
African American-owned microenterprises	650,000
Hispanic-owned microenterprises	800,000
Asian-owned microenterprises	650,000
Native American-owned microenterprises	170,083
Individuals with disabilities**	3.12 million
Welfare recipients who would become self-employed	140,377
Unemployed individuals who would become self-employed	251,430

**These components of the market overlap. For example, many of the entrepreneurs who have difficulty accessing bank financing are women or minorities.*

*** The estimated number of individuals (most of whom are currently not working) who would be self-employed given the availability of services and more conducive policies.*

Source: FIELD, Aspen Institute (2005)

In recent years, there have been efforts at the federal level to reform asset means tests in public benefit programs. One major development in this effort occurred this year in the 2008 Farm Bill (the Food, Conservation and Energy Act) which exempted Individual Retirement Accounts, Coverdell savings accounts and 529 College Savings Accounts from asset limits in SNAP. In 2007, the Freedom to Save Act was introduced in the House, which proposed excluding certain assets in determining eligibility for TANF, SNAP, SSI and the State children's health insurance programs. There has also been interest in the Senate in introducing legislation that reforms the asset limits for SSI and the Social Security Disability Insurance Program (SSDI).

Second, policymakers, at both the state and local level, should promote microenterprise as an eligible work activity for recipients of TANF and SSDI. While welfare reform has resulted in many successes, some low-income Americans are still failing to connect to our economy. At the federal level, Congress should modernize the TANF program such that it focuses on providing sustainable employment and movement out of poverty for needy families. In doing so, it should clarify that self-employment preparation and engagement in self-employment are eligible work activities, and provide clear guidance as to how states and localities can support microenterprise through their TANF programs.

Third, policy should encourage microenterprise as a prisoner re-entry strategy. As prisoners are released from incarceration, finding employment becomes a major concern. Many jobs are not available to those with a prison record and many returning prisoners have limited job experience and skills. Self-employment can be a natural fit for this population. At the federal level, we recommend the creation within the Justice Department of a pilot program on microenterprise development for returning prisoners. State policymakers should consider similar programs.

Finally, we need policy to expand matched savings accounts for business capitalization. Most businesses start with savings, not debt. Nationwide, there are more than 83,000 matched savings accounts known as Individual Development Accounts (IDAs). These accounts match the savings, up to \$2,000, of low-income entrepreneurs, homeowners, or college students to help them become financially self-reliant. To date, more than 35,000 asset purchases have been made including 6,300 small business capitalization investments.⁶ Congress should expand the resources available for IDAs by enacting the Savings for Working Families Act


(S. 871/HR 1514) which would make matched savings accounts available to up to 900,000 low-income Americans. Congress should also fully fund the Beginning Farmer and Rancher Act included in The Food, Conservation and Energy Act of 2008. This new program would provide matched savings accounts for up to 4,000 farmers and ranchers to encourage food security and economic growth.

Ensure that Health Coverage Reforms Address the Particular Needs of Low-Income Entrepreneurs

Under our current health insurance system, small business owners struggle mightily to pay for coverage for themselves and their employees. Microenterprise and low-income business owners struggle the most. Research conducted by the Aspen Institute has found that illness and other health concerns often contribute to the closure (or failure to open) of businesses owned by low-income entrepreneurs.⁷ President-elect Obama has also recognized the burden of health care costs to small business owners. His proposed health care plan would lower health care costs for small businesses by creating a new refundable small business health tax credit of up to 50 percent on premiums paid by small businesses on behalf of their employees.

Conclusion

Microenterprise is a time-tested wealth creation strategy, particularly for the low-income and minority communities that are at financial peril in the current economic climate. The time is now to envision and secure policy options that produce abundant, sustainable and enduring sources of funding for the microenterprise field.

The microenterprise field has had some notable policy successes in the past year. After several difficult years of diminished and then zero funding, efforts to restore funding to federal programs supporting the field were successful. Policies increasing access to capital and supporting entrepreneurship also achieved some success. However, to truly meet the growing demand for microenterprise services in the United States, more must be done. With the advent of a new administration in 2009, the microenterprise field is poised to pursue opportunities for growth and innovation. Together, advocates, researchers, practitioners, financial institutions and entrepreneurs can seize these opportunities by promoting an ambitious new policy agenda for low-income microentrepreneurs and the programs that serve them. 

Strengthening Community Development Infrastructure

The Opportunities and Challenges of CDBG

by Naomi Cytron

Created in 1974, the Community Development Block Grant (CDBG) program, one of the longest continuously running programs at the Department of Housing and Urban Development (HUD), is one of the federal government's largest community development and neighborhood revitalization programs. Program funds are distributed to local jurisdictions and states based on a standard formula, but as long as the funds principally benefit low- and moderate-income people, local actors are given broad discretion regarding their use. Coming out of the urban riots of the 1960s and the general recognition that large-scale urban renewal efforts were a failure, CDBG was developed with the idea that local governments and nonprofits are better situated to determine community development needs than a more centralized oversight body. The broad range of uses allowed under the program means that local allocation strategies can be crafted in ways that are responsive to local conditions. This flexibility has been held up as the program's greatest strength.

Since its inception, approximately \$120 billion has flowed through the CDBG program in an effort to improve the nation's low- and moderate-income communities. The program's broad objective of creating "viable communities through decent housing, suitable living environments and expanded economic opportunities for low- and moderate-income people" has meant that the funding touches many lives through a number of avenues: employment training and literacy programs, youth and senior services like Boys and Girls Clubs and Meals on Wheels, upgrades to public infrastructure like water and sewer systems, commercial corridor enhancements, and home buyer assistance, home safety and energy efficiency improvements.

The program is not without detractors, though. Those most critical of the program contend that it has been a "boondoggle"—susceptible to fraud and mismanagement at best, fruitless and wasteful at worst.¹ More broadly, a number of questions regarding the program's targeting, administration, and monitoring have been raised. Does the federal funding allocation formula ensure that public subsidies go to the communities with the highest needs? Do local governments allocate their funds fairly? Can the program adequately demonstrate success? These difficult-to-answer

questions revolve around matters of efficiency, effectiveness, and equity—worthy issues when discussing the expenditure of public resources.

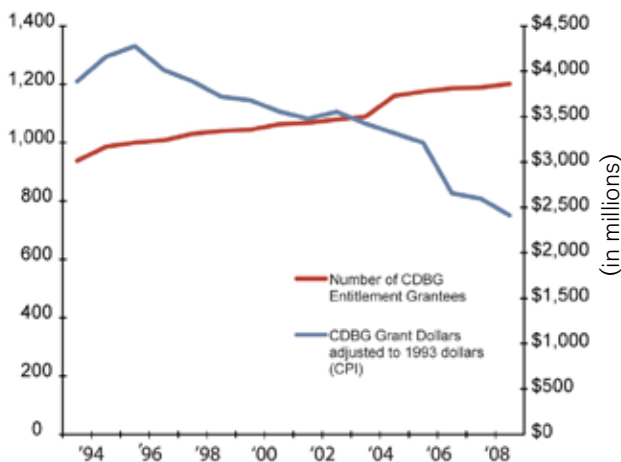
A 2005 HUD report examining the current allocation formula—actually a dual formula of which the core variables, such as poverty, age of the housing stock, overcrowding, and population, have not changed since 1978—noted that it has, "relative to a community development needs index, worsened in its ability to appropriately target funds to entitlement communities."² A number of alternatives to the current formula have been proposed that use differing combinations and weights of variables to determine eligibility and funding levels, sparking concerns about sudden and substantial redistribution of funds, and, ultimately, the policy goals emphasized by alternative formulas.³ Should the formula be restructured to target funds to communities with the least fiscal capacity to address needs? Or to areas that are experiencing high unemployment and job losses? Or to areas that are seeing radical changes in racial and ethnic composition? No consensus has been reached regarding reworking the allocation formula.

It's not just the issue of how to best distribute CDBG funds across communities that has sparked debate; critics also ask questions about the mode of grant distribution within communities. Is it best to use CDBG funds to seed many programs, even at small scale? Some argue that this approach is directly in line with the underlying goals of the program in that it enables broad support of a variety of programs; it can also be a more politically palatable approach. However, others argue that targeting funds to limited geographic or programmatic areas can generate greater impact and can be more effective in leveraging additional resources than a more "scattershot" approach. Richmond, Virginia's "Neighborhoods in Bloom" program is an experiment in targeting public and nonprofit community development resources, including CDBG dollars, to specific neighborhoods. The program provides some evidence that targeted investments can yield positive effects—increased property values, lowered crime rates—both for targeted neighborhoods and surrounding areas.⁴ Still, there is little research that conclusively proves that such targeting is more effective than smaller, scattered investments.⁵

In addition, the issue of impact measurement itself has generated debate. The broad objectives and flexibility of the CDBG program leave room for extremely varied application of funds. While some grantees channel CDBG dollars to local nonprofits that use funds to deliver a range of public services, others use it to supplement general funds for infrastructure improvements and code enforcement. This variability creates difficulty in establishing uniform performance standards and in assessing program impacts. HUD has also had well-documented difficulties in establishing a data collection system that works well both for grantees and for monitoring purposes. But the larger issue here is that it's very difficult to tease out the impacts of a single program. Because multiple interrelated factors play into efforts to improve opportunity and quality of life for low-income people—and because it's hard to figure out which variables capture “improvement” and when to measure those variables—determining if CDBG alone has been “successful” is very complicated.

As such, the program has often been under attack, and the Bush administration threatened to eliminate funding for CDBG for fiscal year 2006. This effort failed, perhaps signaling that there is broad-based support for the underlying principles of the program. However, funds have been repeatedly cut, and at the same time have been spread more thinly within and across communities. According to a Government Accountability Office analysis, real per capita CDBG spending has declined by almost three-quarters since 1978, from about \$48 to \$13 in 2006. In part, this is because the number of communities qualifying for and receiving CDBG allocations since the program's inception has doubled—from 606 in 1975 to 1,201 in 2008.

Figure 5.1 CDBG grant dollars for entitlement communities have decreased, while the number of entitlement community grantees has steadily increased




Source: Department of Housing and Urban Development

Considerations should be made regarding how to improve the capacity of local governments and nonprofits using CDBG funds to carry out community development work.

Despite the debate regarding the best use and distribution of funds, bipartisan support for CDBG in Congress and strong support at the local government level are encouraging signs that the program will continue to direct investment into low- and moderate-income communities. The incoming presidential administration has indicated that it will restore full funding for the CDBG program. But this is an opportunity to not only raise the funding priority afforded to the CDBG program, but also to carefully reshape the program; in other words, it would behoove the incoming administration to address some of the questions and criticisms of the program in order to make it more effective.

An important point to underscore here is that the CDBG program is driven by decisions made at the local level and carried out by a diffuse network of actors. But conditions at the local level have shifted dramatically in many areas since the inception of the program—communities in need have grown more ethnically diverse, high poverty has cropped up in new geographies, and the economic backdrop is markedly different due to globalization. In many places, the local community development infrastructure—if it exists at all—lacks the ability to tackle the increased scope and scale of community development challenges. As such, in addition to rethinking targeting and monitoring of funds, considerations should be made regarding how to improve the capacity of local governments and nonprofits using CDBG funds to carry out community development work. While CDBG funds can be used for capacity building—which can take a variety of forms depending on the needs of a given organization—a very small percentage of funding is ultimately devoted to capacity building activities. But assistance on strategic planning, organizational structure, board development, and general skill-building for staff can improve the effectiveness and sustainability of community-serving organizations and as such should be given greater emphasis under program guidelines.

There are many demands and expectations of the incoming administration, but given that the current economic crisis is sure to have ripple effects for all of us—and particularly for already vulnerable communities—for years to come, determining how to make one of the biggest community development tools in the toolkit more effective should be high on the list of priorities. 



Return on Investment

The Mixed Balance Sheet of Community Development Research

By Carolina Reid

The relative paucity of data and research on community development programs has limited the ability to fully demonstrate their impact and credibly differentiate those that are successful from those that are ineffective.

— Former Federal Reserve Chairman Alan Greenspan, 2003¹

In addition to grappling with the turmoil in the financial markets and the economic slowdown, one of the critical questions confronting the new administration will be how best to address the challenges facing low-income communities. The current mortgage crisis threatens to reverse the past two decades of neighborhood reinvestment, as communities across the country are reeling with the negative spillover effects from concentrated foreclosures, including abandoned homes and storefronts, declining municipal budgets and attendant cuts in social programs, and the loss of jobs associated with economic decline. Addressing these challenges will require a comprehensive approach that strategically targets resources to community needs. But which policies are the most effective in helping to bring revitalization to disinvested neighborhoods? Should policies be structured as tax credit programs, block grants, or vouchers? And should the mix of policies differ in an inner-city neighborhood in the heart of Oakland versus a suburban community on the outskirts of Stockton?

Answering these questions isn't straightforward, in part because there is relatively little research that rigorously evaluates the costs and benefits of community development policies. Indeed, as the quote above by former Federal Reserve Chairman Alan Greenspan notes, community development has fallen far behind other fields (such as health care or welfare reform) in conducting empirical research that can help to inform policy decisions. Instead, most evaluations tend to be based on case studies, and generally focus on outputs (e.g., the number of housing units built) rather than outcomes (e.g., the long-term benefits for families and communities). While these studies do help to build knowledge in the field, the lack of cost-benefit analyses is problematic, since increasingly, policymakers are being called upon to prove that expenditures—especially of public dollars—have a positive return on investment, and are, thus, justified. What does \$1 buy? And is that \$1 well-spent over the long term?

For most community development policies and programs, however, calculating that magical ROI number has proven elusive. Perhaps one of the most important factors limiting

researchers is the lack of data, both in terms of geographic coverage and in terms of subject matter. The U.S. Census, which has remarkable detail on neighborhoods and families down to the census block level, is only conducted every 10 years. How can we evaluate the impact of a new housing development when it will be 10 years before we can measure socio-economic changes in the neighborhood? In addition, many data relevant to community development just aren't publicly available, and it has been difficult to generate support and funding to add new questions to data such as the Census or the Survey of Consumer Finances. As a result, we don't have access to local data on the unbanked, on the different wealth and asset profiles of low-income families, or on the number of minority-owned microenterprises. We even lack publicly available data on mortgage delinquency and foreclosure trends—something that in the current crisis would do a lot to help target and evaluate interventions. Data on program costs are also often difficult to compute; most projects are funded through a variety of sources, some public and private. As such, computing even the simplest benefit-cost analyses becomes problematic.

A second reason for the paucity of community development research is the difficulty of accurately measuring and quantifying community change. How do you calculate a return on investment when there's no built-in pricing mechanism, as there is for an iPhone or a latte? Communities aren't petri dishes: they are complicated constellations of individual actors, businesses, institutional networks, and market forces, most of which are constantly changing and evolving. How do you isolate the effects of the intervention from all the other forces acting upon the community? Moreover, many of the things that matter in community development are very hard to measure quantitatively. For example, how do you quantify the effect of a dynamic leader at the local nonprofit? How do you place a dollar value on the establishment of a new partnership or collaborative critical to the program's success? It is also difficult to know when to measure the intended impact: are the returns on investment relatively immediate (when a graduate of a

job training program finds a job), or do they accrue much further down the road (when that same graduate remains employed for the next 10 years, never needing to return to public assistance)?

And can numbers really be trusted to tell us the full story? Let's just take a simple example that demonstrates the difficulty of quantifying impact. Is helping one family achieve a wage gain of \$20,000 a year (and moving to self-sufficiency) worth more or less than helping 20 families achieve a wage gain of \$1,000 a year (and moving off of welfare)? Or should they be valued the same? While the push for more accountability and demonstrated impact of community development policies is a laudable goal, often, we find that reducing our work to a single number just doesn't feel right.


Research can help us to make programs more efficient, helping more people for less public outlay.

The third barrier to more ROI research in community development – and this may be the hardest to overcome – is fear about the consequences of a negative evaluation. This fear is legitimate: historically, community development activities have been drastically under-funded in relation to community development needs, and competition for federal dollars has always been fierce. Do we really want to publish a study that shows little or no impact? The lack of regular evaluations that allow mid-course tweaking of programs means that when an evaluation does come out, the stakes are really high. The research isn't used to ask the question, "How can we improve this program based on the findings?," but rather, the research is used to justify eliminating the program entirely. Since few of us believe that low-income communities would be better off with even less money, the motivation to do rigorous research is missing. And of course, nonprofits and other agencies relying on those dollars have even less incentive to share data and let researchers in their midst. But imagine the richness of the discussion that we could have around CDBG, HOPE VI or individual development accounts if the question wasn't about whether these projects should be cut, but rather how to use more funds more effectively?

So is the quest for policy relevant community development research futile? Can the fast-moving, sound-bite heavy, political nature of policy-making ever be reconciled with the costly, time intensive, and often complicated and nuanced findings of community development research? As a researcher, I hope the answer is yes. While there are many examples of policies that have been adopted without regard to any real research evidence, there are powerful examples of where research has informed policy to the significant

benefit of low-income families. The Earned Income Tax Credit (EITC) is an apt example. Research demonstrating the impact of the EITC and its role in incentivizing work was critical to its expansion in the early 1990s, and helped to build bipartisan support for the credit during the debates surrounding welfare reform. Today, the EITC has become one of the federal government's largest and most effective antipoverty programs. Research can help us to make programs more efficient, helping more people for less public outlay.² And good research can help us to figure out which programs deserve to be replicated at a broad scale.

Yet doing so will require a reinvestment in both data collection and research. The past decade has seen a significant retrenchment in research funding. To provide just one example, a recent evaluation of the Department of Housing and Urban Development's (HUD) research department found that while research conducted was of high quality and helped to identify ways to improve programs such as Section 8 housing vouchers, CDBG funding allocations, and fair housing regulations—often saving taxpayer dollars—the budget for research at HUD was cut by more than a third between 2000 and 2006.³ The report aptly summarizes the irony of the current situation: "For a department that spends more than \$36 billion of taxpayer money each year on a variety of housing and community development programs, there is virtually no money available to the one quasi-independent office in the agency charged with evaluating how these program funds are spent, assessing their impact, and researching ways to make programs more efficient and effective."⁴

Changing this paradigm will require investing in research at the front end of every project, and not just seeing evaluation as an afterthought or as part of tedious reporting requirements. Funders need to see the value of research, build money for it into their programmatic grants, and be patient about the time it will take to both see and document outcomes. This includes banks investing in communities as part of the Community Reinvestment Act. For example, a grant for a financial education program should be accompanied by a grant to develop the program's evaluation, including a data collection model, training for staff, and perhaps a contract with a local university researcher who can analyze the data. Government agencies also need to be more diligent about collecting and disseminating local data: for example, foreclosure filings at the county recorders office could be recorded electronically and made accessible through the web. More efforts for training and engaging new researchers in community development—through journals, conferences, and internships—would also help to build a formal body of knowledge about what works in the field. With this knowledge, we will be able to develop and replicate innovative and effective policies, and no longer need to prove that investing in low-income communities has a significant return on investment, now and over the long-term. 

A New Look at the CRA

By Prabal Chakrabarti, Federal Reserve Bank of Boston
John Olson, Federal Reserve Bank of San Francisco

The Community Reinvestment Act (CRA) of 1977 has been a part of the bank regulatory environment for over 30 years. While the statute itself and the regulations that implement it have changed over the intervening decades, a re-examination of the CRA seems particularly relevant in the current environment:

- The banking and broader financial services industries have changed significantly since the CRA was passed, and indeed, have changed significantly since the last major overhaul of the regulations in 1995. The intervening years have been marked by new institutions, new products, and a significantly changed regulatory framework.
- The turmoil in the mortgage, credit, and financial markets has prompted calls for a broad re-examination of how the universe of financial market participants is regulated and supervised.
- The crisis in subprime mortgage lending has prompted questions about the supervisory conditions under which subprime lending can be done responsibly.

These developments have raised questions about what role the CRA should play in financial services regulation, and to whom the CRA ought to apply. In response to the call for a re-examination of the CRA, the Federal Reserve Banks of Boston and San Francisco are jointly preparing a publication that captures the views of some of the leading thinkers on the future of the CRA. The contributors, who include bankers, community-based organizations, and academics, offer a broad range of observations and proposals.

While the publication will be available under separate cover in February, 2009, the authors of this article have identified a set of themes and key questions that emerge from these analyses and commentaries. These themes and questions are not policy proposals, or descriptions of a particular solution. Rather, they are an extended range of questions for policymakers and market participants to grapple with as they consider the future of the CRA.

What IS the CRA?

One key set of questions that arises in this re-examination of the CRA is related to the philosophical underpinnings or justifications for the CRA. What is the underlying intent of the CRA? Is it intended to repair a market failure, perhaps a lack of information about credit quality in low-income areas? Is it intended to encourage banks to look harder for business opportunities that they otherwise would have missed? Is it intended to compel, or encourage, banks to help meet social policy objectives, perhaps as compensation for the privilege

of the bank charter or deposit insurance? If the latter, is the intent of the CRA to encourage banks to do things that are somewhat less profitable to further the social goal? To do things that are unprofitable? Have the philosophical underpinnings of the CRA evolved over time as the regulations and the banking environment have changed?

These questions emerge from the current arrangement, in which the CRA applies only to banks and thrifts. If the CRA were to be expanded to other sorts of financial institutions, what justifications or philosophical underpinnings might apply? If we consider taxpayer subsidy or support to be the “hook” on which we hang the CRA for the banks and thrifts, recent events suggest that other industries that enjoy explicit or implicit taxpayer support would be subject to the same analysis. While the Congress found in the CRA that banks have a “continuing and affirmative obligation” to help meet the credit needs of the communities in which they are chartered, do other types of financial institutions have the same obligation?

People versus Place

Another of the key themes raised by a re-examination of the CRA is the question of whether the CRA ought to be targeted at people or geographies. The current regulations measure how well financial institutions are serving the credit needs of both low- and moderate-income geographies and low- and moderate-income people in their assessment areas.

Several questions emerge from this arrangement. The notion of a financial institution’s “assessment area” based on branch locations merits review, particularly with the evolution of financial services delivery mechanisms that do not rely on a branch network. If the assessment area is not based on branch presence, how should it be defined? If an institution makes loans in a geography, or passes some threshold for market share in a geography, should that geography be included in the bank’s assessment area?

The questions raised under this theme are different for other types of financial institutions. For financial institutions without a consumer product delivery presence, a CRA-like requirement might examine these institutions’ role in supporting community development finance, but a clear regulation would need to define where this support would be required to be provided, to whom, and in what form.

Another question is whether the population segments targeted by the CRA should be based solely on income, or if race should be introduced into the CRA calculus. If a guiding principle of the CRA is that financial institutions should serve the credit needs of “the entire community,”

policymakers might contemplate procedures that take race into consideration when determining which segments of the population are underserved.

Incentives for CRA Performance

Recent trends in CRA ratings show that the vast majority of institutions have a Satisfactory or Outstanding CRA rating. The rewards of having an Outstanding CRA rating can be difficult to quantify, and many institutions seem perfectly happy with a Satisfactory rating. Should a new CRA rule consider some reward for “stretching,” for example by rewarding Outstanding institutions with favorable treatment? Or should the CRA just be a floor, ensuring that institutions are doing a reasonably good job of meeting credit needs?

Disclosure of CRA Performance

One critical aspect of the CRA’s impact on the industry and the communities it serves is the public nature of the CRA performance evaluation. Any member of the public can access an evaluation and form his/her own opinion about the institution’s performance, and interact with the bank to encourage greater community development activity.


In light of the ease with which the public can access this information, what role does disclosure play? Should the law simply require disclosure of information about products and services, terms, geographies served, etc., or should it encourage institutions to adopt new products or practices? How can community organizations play a role in using the information to encourage change?

And Finally... Do We Still Need the CRA?

The question of whether the CRA is needed in the first place is also directly related to the question of the philosophical underpinnings of the CRA. Has the problem that prompted the creation of the CRA, specifically, the practice of redlining, been solved? Is it useful in achieving other social goods, such as poverty alleviation, affordable housing, or neighborhood revitalization?

While we can frame this discussion using the CRA as a starting point, policy makers may also want to think in terms of a blank slate. What 21st century market issues exist? What inequalities are of concern? Can the CRA solve these issues, and if so, does the law need to be expanded or revised? Or, if the CRA is specific to the banks, then should the response to these broader issues be grounded in something other than the CRA?

A Framework for Discussion

Our hope for the forthcoming publication is that it will offer a framework for discussion. A review of the CRA raises many questions, some of which have been explored here in a preliminary way. A more thorough treatment of these questions, as well as others that emerge, will lay the groundwork for a thoughtful examination of the CRA and its role in the regulation of financial services. We invite all concerned parties to contribute to the discussion. 

CRA and the Subprime Crisis

Box 7.1

The CRA has recently come under attack from a number of critics in light of the subprime mortgage crisis. They argue that the law caused banking institutions to engage in high-risk mortgage lending in order to fulfill their CRA obligations to help meet the credit needs of low-income borrowers and areas. However, no empirical evidence has been presented to support these claims. Ben Bernanke, Chairman of the Federal Reserve System, recently stated, “Our own experience with CRA over more than 30 years and recent analysis of available data, including data on subprime loan performance, runs counter to the charge that CRA was at the root of, or otherwise contributed in any substantive way to, the current mortgage difficulties.”¹ A growing body of empirical research refutes the charges against the CRA:

- Over the thirty year track record of the CRA, lending to lower-income individuals and communities has been nearly as profitable and performed similarly to other types of lending done by CRA-covered institutions. The long-term evidence shows that the CRA has not pushed banks into extending loans that perform out of line with their traditional businesses.²
- During the height of the subprime boom, only 6 percent of all the higher-priced loans were extended by CRA-covered lenders to lower-income borrowers or neighborhoods in their CRA assessment areas. The very small share of all higher-priced loan originations that can reasonably be attributed to the CRA is contrary to the charge that the law contributed significantly to the current subprime crisis.³
- Financial institutions seeking CRA credit can also purchase loans from lenders not covered by the CRA. However, less than 2 percent of the higher-priced and CRA-credit-eligible mortgage originations sold by independent mortgage companies were purchased by CRA-covered institutions.
- A recent study based on loans originated in California between January 2004 and December 2006 found that loans originated by lenders regulated under the CRA, in general, were significantly less likely to be in foreclosure than those originated by independent mortgage companies. Further, loans made by CRA lenders within their assessment areas were generally half as likely to go into foreclosure as those made by independent mortgage companies not covered by the CRA.⁴

Twenty-First Century Ownership

Individual and Community Stakes

by Hannab Thomas, PhD Student, *Assets & Inequalities*
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In the current economic crisis, questions around ownership are at the forefront of policy responses. The banking industry bailout, and the auto industry supplications for a bailout, raise the prospect of a major transformation of the public-market relationship. Yet in much of the debate, the policy conversation seems polarized between the traditional two extremes: public investment on one side, and market oriented private ownership on the other. Quietly though, through practice and experimentation, diverse models of ownership have emerged in communities across the country. These models offer a different basis to building wealth for community development and economic recovery, and a potentially more sustainable and equitable economic system.

Underlying all of these conversations is the fundamental question of how we define “ownership.” While ownership as a theory has seized the academic imagination since at least the seventeenth century, recent scholarship has emphasized the link between owning assets and the opportunities these assets offer to low-income households. Developed by Michael Sherraden in the 1990s, this theory argues that assets, whether financial, social or educational, are as important to look at as income in assessing inequality and poverty.¹ Sherraden showed that while U.S. policy favors the accumulation of assets by the middle class and wealthy, primarily through tax benefits related to retirement accounts and homeownership, it creates disincentives for the poor to save. Since then a host of thinkers have pointed to the important role that ownership plays, particularly at the individual level.² Research has suggested that the impact of savings is not just added financial security, but that financial assets change behavior and attitude, opening up opportunities that go well beyond the number of dollars saved.

Most of the focus on assets and ownership has been on individual savings. We argue that there may be an opportunity to rethink that focus. When assets are held individually, there is the risk that these assets will leave the community in search of greater returns. For example, an IDA program participant in a low-income neighborhood may choose to move to the suburbs when it is time to buy a home. In contrast, community-held institutions, such as schools, local businesses, land, and open spaces, are important local assets that may also be able to leverage community change.

Figure 8.1 Tax benefit, in dollars, from the mortgage interest deduction, property tax deduction, and preferential rates on capital gains and dividends for households of different income levels.

Income	Tax Benefit
\$1–5,000	\$0
\$5,000–10,000	\$0
\$10,000–15,000	\$3
\$15,000–20,000	\$10
\$20,000–25,000	\$20
\$25,000–30,000	\$45
\$30,000–35,000	\$74
\$35,000–40,000	\$122
\$40,000–50,000	\$264
\$50,000–60,000	\$418
\$60,000–70,000	\$606
\$70,000–80,000	\$836
\$80,000–90,000	\$1,124
\$90,000–100,000	\$1,469
\$100,000–150,000	\$2,604
\$150,000–200,000	\$4,383
\$200,000–500,000	\$7,860
\$500,000–1,000,000	\$20,512
\$1,000,000 or more	\$169,150

Source: Corporation for Enterprise Development

However, some critical questions have yet to be addressed. Who is the most appropriate owner of such institutions and resources and/or who commands their use? How can these community assets become a foundation for long-term community well-being? As of yet, the majority of the asset field has not focused on shared ownership strategies for building wealth, nor looked at the benefits of holding critical community or natural resources or institutions communally.

This is changing, however. Recently the Annie E. Casey foundation hosted a meeting in Baltimore where a diverse range of shared-ownership strategies for building and

controlling assets were presented.³ The evidence from these strategies does point to positive and equitable outcomes from shared ownership.

Take for example the case of Market Creek Plaza, a community owned commercial development project in San Diego started in 1998. The project was a response to 800 neighborhood surveys sent out by The Jacobs Center for Neighborhood Innovation that articulated a desire for a vibrant and creative commercial and cultural hub.⁴ Since 2007, this shopping center has been owned in part by the community, purchased by 415 residents through a community development IPO (initial public offering).⁵ Investors need only \$2,000 in net income, and can invest between \$200 and \$10,000.⁶ The community also holds a 20 percent ownership share in the company through the non-profit Neighborhood Unity Fund. Profits are split: one third of the wealth created through Market Creek goes for personal investor benefit, one third for community benefit, and the remaining third is for ongoing development of Market Creek. The project has had a significant impact on local residents, creating more than 200 new permanent jobs in the neighborhood, awarding 79 percent of construction contracts to minority and women-owned businesses, as well

These models offer a different basis to building wealth for community development and economic recovery, and a potentially more sustainable and equitable economic system.

as creating a multi-cultural community art collection estimated at \$570,000.⁷ Any profits from Market Creek go first to community residents, building wealth from their initial investment, then to Neighborhood Unity Foundation.

Another example comes from resident owned manufactured home parks. The New Hampshire Community Loan Fund helped finance the first model where residents of a manufactured home park bought out the park. This gave them control and ownership of the land their homes were on. Currently 88 manufactured home communities representing over 5,000 individuals have followed this model in New Hampshire alone. In comparison to traditional manufactured home parks where residents merely have leasing agreements, families in these communities are protected against excessive rent-hikes and have control over what happens in the park.⁸ Additionally, wealth building occurs for families if the land value of the park increases. A recent study found that homes in resident owned communities had higher prices per square foot than in investor owned communities.⁹

Or consider the Champlain Housing Trust (CHT) in Burlington, Vermont, the oldest example of a housing land trust in the U.S. It has a shared ownership model where the land trust owns the land and the individual family owns the house on the land, and leases the land for a nominal fee. Homebuyers have to be low-income. They access a lower priced home because the cost of the land is not included, but CHT also works with the bank to reduce mortgage costs by including the land as equity in the mortgage calculation. Their default rates have been very low even in this time of unprecedented foreclosures, and reportedly families have seen high (29 percent) levels of return on their investments in the homes.¹⁰

One final example is the Mission Asset Fund (MAF) in San Francisco, focused on place-based community and individual asset building. Initially envisioned as a traditional Individual Development Account program, the MAF emerged from an extensive series of community-based meetings which revealed that residents wanted to build communal assets to protect the rich cultural vibrancy of the neighborhood.¹¹ Since MAF's inception, it has helped fund worker-owned cooperative businesses such as Balloon Art Productions and Rental, and cooperatively owned homes in partnership with the San Francisco Community Land Trust.



Residents walking along the Laotian Tile Tapestry, part of Market Creek Plaza's Cultural Tapestry Walkways

MAF's focus on addressing savings and investments at the community level, as opposed to an individual based program approach, will hopefully spur not only greater wealth among residents, but also a greater level of community engagement and empowerment.¹²

Ownership of assets, whether community owned or individually owned, means that there is control over the assets.


This may be the most important lesson to be learned from these models. Ownership of assets, whether community owned or individually owned, means that there is control over the assets. This control allows the owner to make decisions about what happens to the asset. For example, if you own a house, you have control over it and can make decisions about what repairs to do, or whether you can have kids in the house. Having a stake in ownership, whether individual, or community, means that you are able to participate in making decisions about what happens to that asset.

This is a powerful idea, and can form the basis for a new policy response in this time of economic crisis. Any one of these models could be conceptualized at the national scale.

For example, rather than merely bailing out the auto industry, what would happen if we directed that investment to the community itself? The Mission Asset Foundation was formed in response to Levi-Strauss closing the doors of a factory that had long been a mainstay of jobs for residents in the community. The company made a commitment to the community, and invested one million dollars to jump-start MAF. In addition to investing government dollars into making the auto industry viable, it makes sense to

invest dollars into community institutions that can help residents build wealth and ownership through starting new cooperative businesses along the models of the MAF or Market Creek Plaza. This would offer more resilience for the community to manage the difficult times ahead as the auto industry restructures.

Instead of pumping money into bailing out the banks, the U.S. Treasury could establish a moratorium on foreclosures, and then invest in innovative shared-ownership strategies like the CHT. This idea is already gaining some traction at the local level. For example, efforts are being made by communities in Boston to organize tenants of foreclosed properties to buy out the bank or the original owner. The model will use a land trust to hold the land and the residents will purchase condos or the entire house.¹³ An example with a longer track record is the Anti-Displacement Project (A-DP) in Springfield, Massachusetts, which has established 1,400 units of tenant-owned cooperative housing. Members of A-DP are typically low-income and often single parents.¹⁴ Shared ownership doesn't have to be at odds with the marketplace, in fact, these types of investments could get markets back on track.

The national political conversation in the U.S. over-emphasizes a rigid public-market dichotomy that does not square with reality. Instead, out of the glare of the national spotlight, innovative practice has been re-molding this relationship for decades. The asset field, in particular, has been pushing public-private boundaries, emphasizing the large sphere of interaction and benefit of morphing models. The 2008 (im)perfect storm of a subprime meltdown, plunging housing and stock wealth, and the specter of a deep recession is recasting possibilities. We believe that bringing forth and investing in the innovative, shared ownership strategies that are percolating under the surface of this economic crisis would create a longer-term sustainable solution for a progressive ownership society benefiting families, communities, and the nation. 

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A New Look at the CRA

The Federal Reserve Banks of San Francisco and Boston will be publishing a collection of essays on an overview of past performance and future changes to the Community Reinvestment Act. The volume, titled "A New Look at the Community Reinvestment Act," will be available in February, 2009. It contains articles from leading academics, practitioners, and policy makers on how to make the CRA more effective for low-income people and communities.



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