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Presidential Pulls

Loretta J. Mester, president and chief executive officer of the Federal Reserve Bank of Cleveland, has spoken this year about Federal Reserve accountability and independence, economic conditions, and more.

For the full text of President Mester's speeches, search www.clevelandfed.org, keyword "speeches."

TOWARD SMALLER BALANCE SHEETS

"The fed funds rate should be our main tool for responding to changes in the outlook during normal times, with purchases of longer-term assets reserved for nontraditional times, times when we have lowered our policy rate to near zero and we need to add more monetary policy stimulus because of a deterioration in economic and financial conditions. Ending reinvestments and beginning the journey toward a smaller balance sheet composed mainly of Treasury securities will be a welcome acknowledgment that the economy has entered normal times and policy is transitioning back to normal, too."

— From a speech in Minneapolis, Minnesota, May 18, 2017

PAYMENTS SYSTEM EVOLUTION

"The technological change we've experienced in recent years isn't likely to stop, so it seems prudent that we should be working to ensure that our payments system evolves in a productive way. Innovation, competition, collaboration, broad accessibility, common standards, risk management, and appropriate supervision and regulation—all are important facets of a well-functioning payments system."

— From a speech in Chicago, Illinois, March 30, 2017

SYSTEMATIC MONETARY POLICY

"Although we live in a high-frequency world, we cannot overreact to transitory movements in incoming data; our policymaking has to focus on what changes in economic and financial conditions imply for the medium-run outlook and risks around the outlook."

— From a speech in Chicago, Illinois, May 8, 2017

THE FED IN THE COMMUNITY

"The Fed is committed to increasing knowledge about the economic challenges facing low- and moderate-income households and communities and helping to identify effective policies and best practices to address these challenges At the very least, [solutions] will take committed and collaborative actions from various stakeholders, and probably some compromises, too."

— From a speech in Cleveland, Ohio, June 23, 2017

TRANSPARENCY

"Clear communications can make monetary policy more effective by helping households and businesses make better economic and financial decisions. When policymakers are clear about the goals of monetary policy and the economic information that is important in their forecasts and policy decisions, and set policy in a systematic way, the public will have a better idea of how monetary policy is likely to change as economic conditions evolve."

— From a speech in Richmond, Virginia, March 21, 2017

FEDERAL RESERVE ACCOUNTABILITY

"Accountability must go hand in hand with independence. That's why I believe it is time to recalibrate expectations of what monetary policy can achieve. The public needs to know what it can reasonably hold monetary policymakers accountable for."

— From a speech in Singapore, February 20, 2017



Evolution, Not Revolution: Payments Are Undergoing Changes in the United States

In payments, the term “revolutionary” has surfaced frequently in recent years, reflecting the penetration of personal computers, tablets, and mobile phones into banking. But are we calling this integration of personal computing and banking revolutionary in order to gain commercial attention, or is it an innovation likely to stimulate fundamental shifts in US payments?



Daniel A. Littman
Policy Advisor



Tasia Hane-Devore
Staff Writer

The number of debit card transactions [rose] from about 9 billion in 2001 to almost 60 billion in 2016, a staggering increase of more than 600 percent. (p. 4)

The short answer is that current changes in US payments lie between revolution and innovation: The payments system is not undergoing a revolution, but neither is it static. Some of the news we hear about the payments system reflects innovators’ trying to get commercial attention. Some of it reflects facets of slow, longer-term change that will transform the way the payments system works over a period of years.

So why is there so much talk of revolution in payments?

The popular and banking trade press is filled with stories about new ways to make and receive payments. Innovations such as chip-equipped credit cards, contactless debit cards, mobile wallets, and 2-dimensional barcodes carried on smartphones are among the new technologies trumpeted in the press. But new payment methods receive extra attention because they are novelties, not because they are of everyday importance as payment tools.

Part of the confusion arises because few people understand how the payments system really works. A plastic card may be viewed by some consumers as a stand-alone product. The act of swiping that plastic card through a retailer’s point-of-sale terminal may be perceived as the entirety of a payment experience. Yet these cards, whether in the form of a 3½ by 2 inch plastic rectangle or as a virtual object whose data are carried inside a smartphone, are simply points of access to the payments system.

A profile of payments today

Payment tools are consumer products, though the average person might not think of them in quite these terms. But similar to the choices consumers have at the grocery store for detergent or cereal or coffee, consumers have choices about payment products: cash, paper checks, money orders, cards (credit, debit, and prepaid), and Automated Clearing House (ACH) or electronic check processing.

And cash isn't necessarily king.

Making payments is arguably the most common activity Americans do from stranger to stranger every day, and how we make payments is of significant interest to individuals and to merchants, financial institutions, and payment intermediaries such as the Federal Reserve. According to the latest figures from the *Federal Reserve Payments Study 2016*, on the average day in the United States in 2015, consumers, businesses, and governments made nearly 400 million noncash payments with a total value of \$487 billion.

The Federal Reserve conducts another periodic study, this one including cash payments, called the *Diary of Consumer Payment Choice*. It focuses on consumer-originated payments only, excluding payments that start with businesses or government entities, and

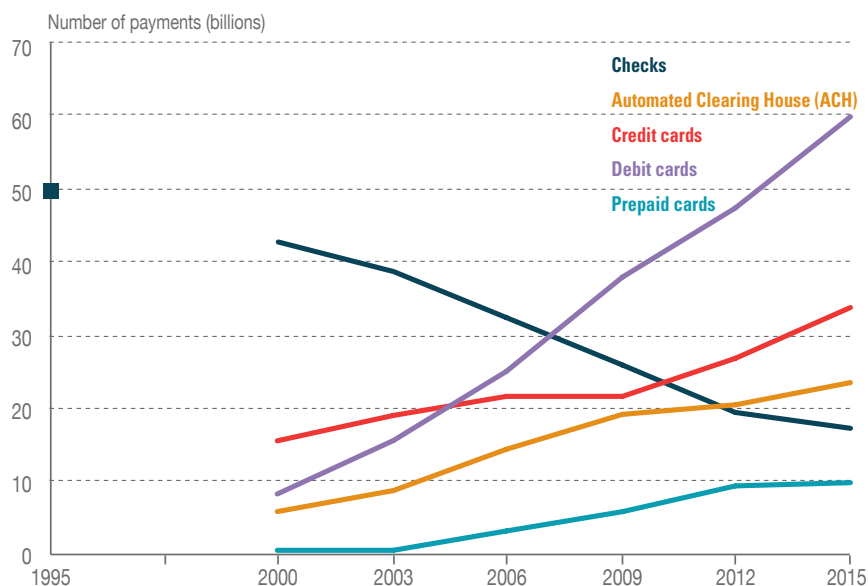
uses a combination of surveys and multiday payment transaction diaries to develop an estimate of consumer payments. Cash remains the largest payment product used by consumers, representing one-third of all consumer transactions in 2015, but cash is declining in relation to other payment types, which collectively make up two-thirds of all payments.

How have payments changed in recent memory?

Payment products and preferences are evolving. For the generations that came of age in the first third of the twentieth century, the most common payment type by far was cash. The overturning of the established order—cash use has dropped from nearly 100 percent to about 33 percent during the past 100 years—may seem to have come about quickly, but it was not an overnight event.

Cash use has dropped from nearly 100 percent to about 33 percent during the past 100 years.

Debit card payments comprised the largest noncash transaction type in 2015.



Source: Federal Reserve Board, *Federal Reserve Payments Study 2016*.

Note: Black square indicates the number of check payments (in billions) in 1995.

Between 2000 and 2015, the use of debit cards has risen by 51.3 billion items, while check use has declined by 25.3 billion items.

Number of payments (billions)	2000	2003	2006	2009	2012	2015
Checks	42.6	38.6	32.2	25.8	19.7	17.3
Automated Clearing House (ACH)	6.0	8.8	14.6	19.1	20.4	23.5
Credit cards	15.6	19.0	21.7	21.6	26.8	33.8
Debit cards	8.3	15.6	25.0	37.9	47.3	59.6
Prepaid cards	0.5	0.8	3.3	6.0	9.3	9.9

Source: Federal Reserve Board, *Federal Reserve Payments Study 2016*.

Note: Prepaid cards include general purpose, private label, and electronic benefit transfer.

Payment changes occurred with increased speed starting after World War II, when more households opened checking accounts. Credit cards and ATMs (automated teller machines) and their cards gained in popularity soon thereafter. The environment we know today—point-of-sale terminals connected to electronic networks and the wide use of debit cards—began in the 1980s.

Still, paper checks and cash persist as major parts of the payments system.

The US payments system has continued to evolve during the past two decades. The most significant changes are in checks and debit cards. The number of paper checks processed declined from a peak of nearly 50 billion per year in 1995 to the 2015 estimate of 17 billion, a 65 percent reduction. During this same period, the check collection system in the US went from an entirely paper-centric process to an entirely electronic one, dramatically lowering the cost of end-to-end check processing and increasing the speed of collections.

The number of debit card transactions filled some of that space, rising from about 9 billion in 2001 to almost 60 billion in 2015, a staggering increase of more than 600 percent. During this same period, the use of credit cards and debit cards grew, and prepaid cards made a material appearance, ending 2015 with 9.9 billion transactions for the year. The rise of debit card transactions and the decline in paper-originated check and cash transactions have lowered the cost of the payments system. The conversion of check collection from a processing- and transportation-intensive system to the all-electronic Check 21 system has also reduced the cost.

In 2015, American consumers and businesses had the same set of payment tools they possessed in the 1980s, so it's not possible to declare that a revolution has taken place. But the payment landscape of 2015 has evolved significantly, becoming unrecognizable to someone accustomed to the check- and cash-rich landscape of the 1950s and 1960s.

Innovations in payment access devices do represent improvements in the payments experience on the part of consumers and businesses, however, and in some cases

improvements for merchants or other receivers of those payments. The Starbucks or Apple Pay apps on a mobile phone execute payments at the point of sale faster than a magnetic stripe or chip card and faster, too, than a paper check or a handful of coins and banknotes. Mobile app payments are more secure than older methods of initiating payments, as well.

For a merchant, mobile apps can allow tracking of consumer preferences, yielding benefits for both parties. Tracking consumer preferences may facilitate individually targeted offers, leading to increases in repeat business. On the consumer side, such tracking can facilitate special offers and the accumulation of loyalty points toward products.

But while these enhancements improve the transaction experience for both consumers and merchants, they also make use of the existing network infrastructure for payments instructions and payments settlement. Evolution, then, not revolution.

Faster payments: Not everything made easier is necessarily made better

By virtue of their efficiency and reach, payment networks can be a barrier to entry for new ideas that are perhaps better in functionality than existing methods but not viable because of their cost to implement. Even though an innovation might be more effective than existing types of transactions, its promoters often do not have sufficient influence or funding to change how the core of the network operates.

Occasionally there comes a time when the key stakeholders of the payments system—banks, merchants, processors, standards organizations, and the central bank—realize that the current combination of payment products is preventing the introduction of modernized payment methods, and they work

to change the situation. In those times, we've experienced an accelerated evolution in payments. Efforts such

That was the last time—40 or so years ago—entirely new end-to-end payment networks directly affecting end users were introduced in the United States.

as those discussed previously paired innovations in payment products with innovations in network technology. The development and deployment of these innovations has required collaboration among US financial institutions, telecommunications networks, technology companies, financial regulators, and, in some cases, the central bank.

In the 1970s, several types of end-to-end payments networks were enabled by the introduction of mainframe computers and telecommunications in the US banking system. ATM, ACH, credit, debit, and point-of-sale networks took advantage of that technology. That was the last time—40 or so years ago—entirely new end-to-end payments networks directly affecting end users were introduced in the United States.

Around the world, however, a number of countries have implemented some version of a new payments network labeled “faster payments” or “real-time payments.” These are networks that in their purest form allow payments to move in an instant from one party to any other party and, in several cases, operate 7 days a week, 24 hours a day. In the United States, such faster payments networks are now under construction. They should become available to end users by the end of 2018.

While a revolution in payments doesn't appear on the horizon, the United States is due for continuing evolution. Legacy networks and products will remain. Faster payments will not drive any of the legacy payment products to extinction, but the experience in other countries with real-time payments systems suggests that faster payments will reduce the growth rate of ACH and accelerate the decline of checks and cash. Faster payments will also improve convenience, certainty of payment, and security for end users. ■

SUM AND SUBSTANCE

New payment products have appeared periodically during the past several decades, but none reaches the point of revolutionary development, particularly because these products use legacy networks. Nevertheless, a “faster payments” system may accelerate changes in the payments landscape.

Significant evolutions in the payments landscape have occurred during the twentieth and twenty-first centuries, but all have used standard payments networks.

Innovation	Period of implementation
Credit cards	1950s
ATM networks	Late 1960s to early 1970s
Automated Clearing House (ACH)	Early 1970s
Point-of-sale networks and debit cards	Late 1970s to early 1980s
Image-clearing of paper checks	Mid-2000s

LOAN DENIED

Home Lending Reports Reveal That Home Loan Outcomes Vary by Race, Income, and County

The first 2 in a series of home lending reports by county examine trends in Cuyahoga and Allegheny and reveal differences not only for the counties, but also for borrowers of different races and incomes.



Michelle Park Lazette
Staff Writer

New research from the Federal Reserve Bank of Cleveland's Community Development Department reveals that applications for home loans have taken a rollercoaster ride during the past 3 decades in Cuyahoga and Allegheny Counties. Applications climbed to a 25-year high in 2003, plummeted through 2008 as the Great Recession took hold, rose again in 2012, though not nearly as high as in 2003, and fell from that 2012 level and remained lower still as of 2015.

Home loan originations, or those loan applications that have been approved by the lender and accepted by the borrower, followed a parallel path, up the peaks and down the valleys throughout the years, according to 2 home lending reports.

LOAN APPROVED

Why did mortgage applications dip so low? While the reports do not directly address the reasons, research by the Pew Research Center indicates the declines in home purchase applications may be attributed to a decrease in the number of renters becoming homeowners and an increase in the number of homeowners becoming renters, says Lisa Nelson, a Cleveland Fed community development advisor who, with policy analyst Matt Klesta, is producing a series of county-specific reports exploring how home lending trended before, during, and after the Great Recession.

While the gap in home purchase origination rates for blacks and whites has narrowed since 2010, white borrowers were still more likely in 2015 to get approved for home purchase loans regardless of borrower income and the income of the neighborhood in which they sought to buy.

“It didn’t matter the borrower income; it didn’t matter the neighborhood: The bottom line is originations and applications went down for all groups as we entered the Great Recession,” Nelson says.

Unemployment, income loss, and income insecurity prevented households from purchasing homes in the postcrisis period, according to a 2012 speech by Ben Bernanke, the former Chair of the Board of Governors of the Federal Reserve System. And falling housing prices inhibited homeowners from tapping into their home equity or “trading up” to larger or better homes.

The good news for those actually applying is that more loans are being approved these days. The rate of originations (the rate at which loans to purchase homes are being approved by the lender and accepted by the borrower) was markedly higher in 2015 than it was in 2005 in both Cuyahoga County, home to Cleveland, and Allegheny County, home to Pittsburgh.

Home loan activity ticked back up in some recent years, namely in 2012 and in 2015, but it didn’t rise in the same way for every race, income group, or county studied, according to the reports *Home Lending in Cuyahoga County Neighborhoods* and *Home Lending in Allegheny County Neighborhoods*.

Here, we explore 4 differences uncovered in these reports.

Finding #1:

Black borrowers were less likely than white borrowers to get approved for a home purchase loan, even within the same borrower income group and even when they were buying in the same income neighborhoods.

When comparing low- and moderate-income (LMI) blacks and LMI whites, home purchase origination rates are higher for whites in each year examined, Nelson says. While the gap in home purchase origination rates for blacks and whites has narrowed since 2010, white borrowers were still more likely in 2015 to get approved for home purchase loans regardless of borrower income and the income of the neighborhood in which they sought to buy.

Here’s one example from the Cuyahoga County report: In 2015, nearly 70 percent of black LMI borrowers applying for a home purchase loan in an LMI neighborhood were approved, compared to 82 percent of white LMI borrowers purchasing homes in LMI neighborhoods.

Looking at the experiences of white and black borrowers in a different way, the report shows a similar outcome. When examining the number of home purchase loans while accounting for the size of the LMI population, the analysis shows that black LMI borrowers were proportionally less likely than white LMI borrowers to obtain a loan.

The Great Recession and the years bookending it, specifically 2005 and 2010, were a time of decline in home purchase loan rates—the number of home purchase loans per 1,000 households—for both whites and blacks, but the rate declined the most for black LMI borrowers.

For example, in Cuyahoga County, there were 58 home purchase loans by white LMI borrowers in 2005 for every 1,000 white LMI households, compared to 37 home purchase loans by black LMI borrowers per 1,000 black LMI households. And from these starting points, the home purchase rates from 2005 to 2010 declined 53 percent for white LMI borrowers and 72 percent for black LMI borrowers.

While the home purchase loan rates did increase from 2010 to 2015, the increase was greater for white LMI households (26 percent) than it was for black LMI households (6 percent).

“We can’t explain the differences we see from this analysis,” Nelson says. “The Home Mortgage Disclosure Act (HMDA) data don’t tell us anything about borrowers’ credit scores or their debt-to-income ratios that might help explain these differences.”

However, researchers at the Board of Governors found that declines in home purchase lending since 2006 are mainly due to less lending to lower-credit-score borrowers, regardless of race. Even so, overall black borrowers tend to have lower credit scores than white borrowers, so it follows that the declines in home purchase lending were greater for black borrowers than for white borrowers after the Great Recession.

Finding #2:

Refinancing home loans while interest rates were historically low occurred more in higher-income neighborhoods than in lower-income neighborhoods in Cuyahoga and Allegheny Counties.

In the years immediately following the recession (2010 and 2011), high-income neighborhoods accounted for more than 60 percent of the home loan refinance activity in Cuyahoga County. That number (share of refinances occurring in high-income areas) was 61 percent in Allegheny County in 2012. Deteriorating housing values plus tightened lending standards during and after the recession may have impacted the ability of some homeowners to refinance their homes, particularly in LMI areas within the counties.

“In the postrecession period, it was largely homeowners living in high-income neighborhoods that refinanced,” Nelson says. “When you refinance, you need a certain amount of equity in your home. In areas where the housing prices rebounded, perhaps more so in the high-income areas, borrowers may have had more equity in their homes, allowing them to refinance.”

It was a different story prior to the Great Recession in Cuyahoga County, when the share of refinances in LMI neighborhoods exceeded the share in the county’s high-income neighborhoods.

What was happening in Cuyahoga County was not happening nationally. The percent of refinances occurring in low- and moderate-income neighborhoods nationwide was 17 percent, less than half what it was in Cuyahoga County.

In 2005, more than a third (36 percent) of all refinances in Cuyahoga County occurred in the county’s LMI neighborhoods, compared to 26 percent in high-income neighborhoods.

To the southeast, in Allegheny County, the share of refinances in lower-income neighborhoods was 18 percentage points lower than the share in Cuyahoga County in 2005.

And what was happening in Cuyahoga County was not happening nationally, Nelson notes: The percent of refinances occurring in LMI neighborhoods nationwide was 17 percent, less than half what it was in Cuyahoga County.

While Nelson and Klesta can’t say definitively why refinance shares were so much higher in Cuyahoga County’s lower-income neighborhoods before the housing crisis, research has shown that subprime credit expanded more in the LMI neighborhoods in Cuyahoga County. For example, much of lending in Cuyahoga County’s LMI neighborhoods involved high-cost loans and loans originated by nondepository institutions; this was not the case in Allegheny County.

A decade later, in 2015, the share of refinances in Cuyahoga County’s LMI neighborhoods (15 percent) had fallen more in line with the share of refinances in LMI neighborhoods nationally (12 percent).

Finding #3:

From 2005 to 2015, in both Cuyahoga and Allegheny Counties, the share of low- and moderate-income borrowers buying in higher-income areas went up.

The share of purchases in LMI neighborhoods dropped from 2005 to 2015 for all race and income groups in Cuyahoga and Allegheny Counties, the home lending reports reveal.

It's the opposite for purchases in non-LMI neighborhoods: The share of home purchases in higher-income areas was up in 2015 compared to that of 2005 for both race and borrower income groups. Where there's an exception (white non-LMI borrowers in Allegheny County), the share of purchases in non-LMI neighborhoods merely remained the same.

In Cuyahoga County, for example, 52 percent of black LMI borrowers in 2015 purchased homes in non-LMI neighborhoods, up from 22 percent in 2005, and 80 percent of white LMI borrowers bought in higher-income areas, up from 71 percent in 2005.

The uptick in Cuyahoga County may be the result of depressed housing prices, a situation which could have left the door open for more borrowers to afford houses in areas that otherwise might have been unaffordable previously, Klesta says. Home prices in Cuyahoga County fell by 11 percent from 2005 to 2009 and an additional 4 percent from 2009 to 2010.

Another driver of LMI borrowers' loan activity may be the first-time homebuyer tax credit enacted in 2008 and made available to qualified borrowers through mid-2010. Federal Reserve researchers have documented an increasing share of home purchase loans to LMI borrowers while the tax credit was in place.

Finding #4:

Allegheny County's origination rates are higher than Cuyahoga County's across all loan types, neighborhood income groups, and years with the exception of 2005.

During that year, Cuyahoga County had higher refinance origination rates in all neighborhood income types.

Allegheny County's origination rates for home purchase loans have been higher than those in Cuyahoga County across all neighborhood income types in the 3 years examined: 2005, 2010, and 2015. So whether buying in a low-income, moderate-income, middle-income, or high-income neighborhood, borrowers were more likely to secure a home purchase loan in all 3 years in Allegheny County.



The uptick in Cuyahoga County may be the result of depressed housing prices, which could have left the door open for more borrowers to afford houses in areas that otherwise might have been unaffordable previously.

The same is true for refinance origination rates (they were higher in Allegheny County than in Cuyahoga County) with the exception of 2005, when refinance origination rates were higher in Cuyahoga County for all neighborhood income types than in Allegheny County.

Asked why the home loan outcomes differ between the two, Klesta and Nelson note that Home Mortgage Disclosure Act data don't reveal much about the borrowers, but they suggest the differing outcomes could be explained, in part, by lower credit scores and higher debt-to-income ratios, among other characteristics that lenders take into account when deciding whether to extend credit.

Overall in Allegheny County, the median incomes are higher. Referring to the maps that accompany the two home lending reports (map 1 in both reports*), Klesta notes that while more than half of the census tracts in Cuyahoga County are LMI, only just over a third of the tracts in Allegheny County are.

Allegheny County also didn't experience the steep drop-off in housing prices that Cuyahoga County and the nation did between 2000 and 2016. Instead, homes held their value more, and stable home equity tends to make it more possible for a homeowner to refinance. ■

SUM AND SUBSTANCE

Two researchers in the Cleveland Fed Community Development Department, a group that promotes impartial access to credit, find differences in home loan outcomes for people of different races and incomes in county-by-county reports.

*Available here: tinyurl.com/y7suffd3.

Source file:

Most renters say they would like to own in the future, but financial constraints are an obstacle. Read the December 2016 analysis by Pew Research Center at tinyurl.com/ybljrfoa.

Homeownership rates fall when existing homeowners lose or leave their properties, when barriers to homeownership increase, or both, Ben Bernanke, then-Chair of the Board of Governors of the Federal Reserve System, said in a 2012 speech. He explored policy responses to the challenges, too: tinyurl.com/y8nmoxrn.

For more information on the factors contributing to the disproportionate decline in lending to minorities since 2006, see this *FEDS Notes* article at tinyurl.com/ya8a69fl.

The Federal Reserve Bank of Cleveland published during and after the Great Recession reports on foreclosures in Greater Cleveland (Cuyahoga County) and in Allegheny County. For the Greater Cleveland report, visit tinyurl.com/ycjvphe9, and for the Allegheny County report, read tinyurl.com/y78stjx4.

A December 2011 *Federal Reserve Bulletin* offers highlights about the mortgage market, using Home Mortgage Disclosure Act data: tinyurl.com/y77hmmxk.



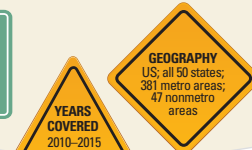
Coming up

Stay tuned for home lending reports for other major counties in the Fourth Federal Reserve District, which comprises Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky.

Uncover lending trends yourself

The Home Mortgage Explorer draws from HMDA data—the same data used in the home lending reports—and allows users to more easily explore trends in mortgages. The infographic insert in this magazine explains more.

Take a drive with the Home Mortgage Explorer
<https://philadelphiafed.org/hme>



When It Comes to Lead Poisoning, Prevention Is Key

Three people working to improve the prevention of lead poisoning in children share successes and challenges they see and what more is needed to protect the human capital of tomorrow.

Decades after the United States banned lead paint and leaded gasoline, children are still suffering from lead poisoning, and the risk of it here, in the region served by the Cleveland Fed, is higher than in similar regions of the country.

“Individuals’ health outcomes are largely determined by where they live; the idea is that one’s life expectancy is linked more to zip codes than genetic codes,” says Mary Helen Petrus, assistant vice president of the Bank’s Community Development Department.

“We’re at heightened risk in this region [the Fourth Federal Reserve District comprises Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky] because so much of our housing stock is wood frame and old—built prior to 1978 when lead-based paint was banned,” Petrus continues.

Lead is in the environment also because of the region’s industrial past, adds Lisa Nelson, a Cleveland Fed community development advisor. “By virtue of having the old industry, there’s a lot of lead in our soil,” she explains.

Recent concerns made evident by media reports about lead poisoning crises within the Fourth District—specifically in Cleveland—and outside of it—namely in Flint, Michigan—motivated the Cleveland Fed in 2016 to publish a brief that examines impact studies and remediation efforts both locally and nationally. The Bank also convened a forum to stress the importance of lead poisoning prevention to the economic vitality of the region.

“This issue has been a concern within our region for decades, particularly in the most distressed areas,” Nelson says. “Research has documented the negative impact of lead exposure on kids’ educational outcomes and on their ability to reach their full potential in life. Nothing has been found that can fully mitigate the effects of lead on children once they are poisoned.”

That reality makes efforts to prevent lead exposure essential. Such efforts are most effective if the various experts who touch families’ lives, from pediatricians and public health experts to community developers and educators, work together to increase prevention, Nelson says.



Ronald J.H. O'Leary

Position

Former Director, Department of Building and Housing, City of Cleveland

Education

Miami University, BA and MA
Case Western Reserve University, JD

Lead work

Cleveland's building department will implement a systematic program in 2017 that will inspect every residential rental unit in Cleveland on a 5-year cycle. These inspections will focus on safety issues such as lead paint, fire dangers, and mechanical systems.



Katrina Smith Korfmacher

Positions

Director, Community Outreach and Engagement Core, Environmental Health Sciences Center

Associate Professor, Department of Environmental Medicine, University of Rochester Medical Center

Education

Brown University, BA
Duke University, MS in water quality management and PhD in environmental policy making

Lead work

Since 2002, Dr. Korfmacher has developed, participated in, supported, and evaluated community partnerships related to childhood lead poisoning prevention and healthy homes in Rochester, New York.

The lead poisoning of children today has serious implications for the human capital of tomorrow.

To that end, the Cleveland Fed's November 2016 forum "Addressing the Impacts of Lead: Moving Toward Prevention" sought to encourage the sharing of best practices and research among academia, nonprofits, government agencies, and healthcare providers. Roughly 60 stakeholders in Cuyahoga County attended.

The lead poisoning of children today has serious implications for the human capital of tomorrow. "Decades' worth of research has linked lead poisoning with reductions in IQ, poor educational outcomes, behavioral challenges, attention disorders, and criminal activity," reads the conclusion of Nelson's August 2016 report *Lead Poisoning and the Children of Cuyahoga County*.

The report continues, "The costs associated with lead-exposed children estimated by economists, physicians, public health experts and others may differ, but there is considerable consensus that the societal and economic costs associated with lead-poisoned children are substantial."

While lead poisoning may seem an intractable issue, there are models of mitigation that have shown success, Petrus and Nelson say.

Recently, *Forefront* asked 3 of the forum's speakers to discuss promising approaches to lead poisoning prevention. An edited transcript of our conversation follows.



Claudia J. Coulton

Positions

Professor, Jack, Joseph and Morton Mandel School of Applied Social Sciences

Founder and Codirector, Center on Urban Poverty and Community Development

Case Western Reserve University

Education

Ohio Wesleyan University, BS in sociology

The Ohio State University, MSW

Case Western Reserve University, PhD in social welfare

Lead work

Dr. Coulton has been studying the negative impact of elevated blood-lead levels on kindergarten readiness assessment scores for Cleveland children. She has identified the types of housing and neighborhood conditions that put children at risk of lead poisoning and focused on “hot spots” where risk of lead poisoning is highest.

FOREFRONT: *Where is lead poisoning in children most prevalent, and why?*

COULTON: It's most prevalent in housing, both single-family and multifamily housing, that's suffered disinvestment and a lack of upkeep and maintenance. Here in Cleveland, the current pattern of lead poisoning very much tracks the redlined areas from the 1930s and 1940s—the same areas affected more recently by rampant foreclosures and subprime mortgages, where homes were left empty. That's where it's concentrated here. Nationally, in newer cities, the patterns are different. And in Flint, Michigan, we know water was the source of lead.

O'LEARY: We know with our city being the age it is and the construction type it has—largely wood frame housing and most of it constructed before 1978 [when lead paint was banned]—that this is going to be an issue throughout every neighborhood in the city, but the higher concentrations of elevated blood-lead levels tend to be in areas of the city where there are other maintenance issues. What we're doing is pulling in information about where elevated blood-lead levels are highest, and that's where we will begin to focus our rental property inspection program when we get it started later this year. Previously, we've inspected rental properties on more of a complaint-driven basis and based on orders from our housing court; we've been planning for

some time [to] implement a systematic rental inspection program. Rentals are a business, and the landlords should be appropriately maintaining the rental units in a way that's safe for tenants.

FOREFRONT: *What do your research and experience reveal is needed to combat lead poisoning in children?*

COULTON: Our research points to single-family and 1- to 4-unit properties as most important to monitor. Being sure to track where it's happening is important. There's a good possibility a child will end up being in that unit again in the future.

O'LEARY: Landlords have a business enterprise, and often the margins are very tight; we don't want to have any more vacant properties than we already have. We are concerned about our efforts leading to displacement and vacancy, but not at the expense of people living in unsafe housing. The landlords are responsible for maintaining their properties up to code. That is the bottom line. But we have to be practical and acknowledge that some landlords will need access to financial resources so that they don't allow their properties to become vacant. We want to provide direction to those landlords as to where they can find resources to correct violations. That way, we have safe places for people to live.

KORFMACHER: The community partnership that we have in Rochester is the most critical thing. We have this beautifully simple but elegant system of rental inspections that is very efficient and cost-effective. We have a holistic collaboration of the county health department, the city housing department, and community groups, and that helps us look at the data and make adjustments for what's needed. For example, initially under our proactive rental inspections, we were doing dust wipes [the process wherein wipes are used to test surfaces for lead dust] in all types of units on the same inspection schedule, but we found that 91 percent of kids with elevated blood-lead levels lived in dwellings with 1 or 2 units. Only 9 percent lived in buildings with 3 or more units. So the city stopped doing dust-wipe testing in larger structures.

FOREFRONT: *What worries you about the current state of the research and action involving lead poisoning?*

O'LEARY: We have so few resources to deal with lead paint—that's my main concern. Much of what I've done, and our staff in building and housing has done, has focused on demolishing and securing vacant structures that are nuisances. We've demolished more than 8,800 structures since I

joined the department in 2006. Our cost has been more than \$68 million. There are, ballpark, another 5,000 structures that should be demolished, and, at an average of \$10,000 per demolition, there's \$50 million more in demo dollars

needed right there. The amount that it would cost to really deal with lead far exceeds what we've done with demolition. You can appropriately maintain the lead paint to keep it safe—and those measures are relatively cost-effective—but the truth is you can't maintain something indefinitely without constant focus on it. The cost to remediate all of the lead paint? I don't have an estimate.

KORFMACHER: In Rochester, by putting into place clear expectations and incentives for property owners, we have shifted the focus: For little incremental cost of maintaining paint and friction surfaces, property owners have been able to significantly raise the floor with regard to lead safety in rental housing. As a result, the number of kids with elevated blood-lead levels has come down 2.4 times faster than in other upstate cities that do not take this approach to controlling lead hazards. I do think that the belief that we need to remove all leaded paint from buildings in order to address the problem is a barrier. It means people are afraid or reluctant to take the first step to make it better. Before adopting our law, the only model that people were aware of was full abatement, but that was not going to work with Rochester's housing market. As Ron said, I can't imagine how much it would cost to remove all of the lead from Rochester. That was stopping people from asking, "What can we do? If we can't remove it all, let us do what we can that is sustainable and cost-effective." It hasn't eliminated lead hazards, but it has improved the lead safety significantly.

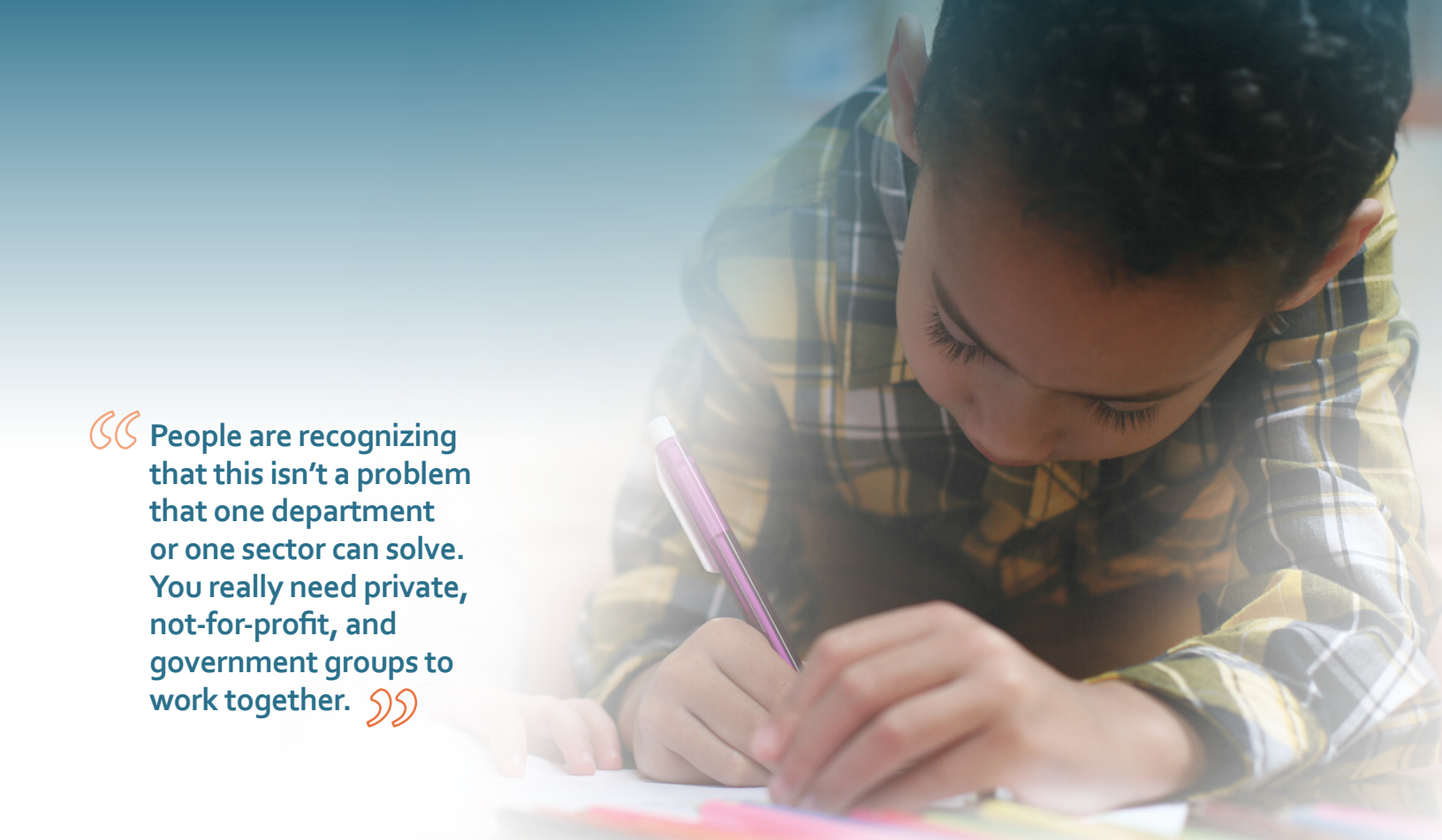
COULTON: It would seem that these lead-safe practices can also be disseminated effectively to homeowners. I don't know that the models for that have come as far.

FOREFRONT: *What encourages you about the current state of the research and action involving lead poisoning?*

COULTON: We saw this very well demonstrated at the recent Cleveland Fed forum, specifically the sharing of statistics on the effectiveness of the program in Rochester and other studies demonstrating the impact of not-complete-abatement, lead-safe programs. I'm very encouraged that those rigorous studies are there and that people who have done them are willing to share their best practices. We can monitor the impact of programs here using some of the methodologies used elsewhere.

O'LEARY: Our staff has worked with Rochester and a number of other cities to develop best practices, and that's tremendously helpful to us as we try to

“ I do think that the belief that we need to remove all leaded paint from buildings in order to address the problem is a barrier. It means people are afraid or reluctant to take the first step to make it better. ”



“ People are recognizing that this isn’t a problem that one department or one sector can solve. You really need private, not-for-profit, and government groups to work together. ”

develop our program.

KORFMACHER: People are recognizing that this isn’t a problem that one department or one sector can solve. You really need private, not-for-profit, and government groups to work together. Also, the sharing, the collaboration between cities—Cleveland doesn’t have to make all of the mistakes and learn all of the lessons we and others did.

FOREFRONT: *How do we reasonably ensure that policies and laws actually are enforced? To whom does this responsibility fall?*

O’LEARY: It’s largely buildings that cause the problems. There are toys with lead paint on them and housekeeping issues where people are tracking in dirt from outside that has lead dust in it. But when we know that the structures themselves are so frequently the source of the lead poisoning, the responsibility is with the building department in any local government. That’s why we’re focused on that right now.

COULTON: I agree with Ron. The city is the authority regarding housing codes and rental registry and so forth. However, I feel like there is a lack of awareness, a lack of really actionable, systematic information about lead that’s being given to parents of newborns. I don’t think we have a message yet empowering parents to ensure lead safety or to insist that their landlords do it.

FOREFRONT: *For those whose structures are found to contain high amounts of lead, what resources and steps would you suggest?*

KORFMACHER: Make sure paint is intact; remove paint on friction and impact surfaces; if possible, replace windows; cover any bare soil; and use lead-safe cleaning techniques. In all cases, make sure to hire RRP-certified [renovation, repair, and painting] contractors if you are doing any work that disturbs paint, and watch to make sure they use lead-safe work practices.

Lead exposure in children is just one of the negative consequences of housing disinvestment. Poorly maintained housing also exacerbates health problems (e.g., asthma), contributes to parental stress, and is associated with residential instability.

O'LEARY: There are best practices for safety for dealing with lead paint. Those include proper ways to remove it: don't use a sander on lead paint, don't use a heat gun to help strip it, make sure to put down plastic or a drop cloth to catch paint chips outside versus letting them go into the grass. Be sure you keep the house clean. Lead poisoning oftentimes is from the dust from lead paint. It also can be tracked in: You walk through the grass, you track dirt in. Sometimes the concentration of lead in the soil in a tree lawn is very high because we used to use leaded gasoline for automobiles.

FOREFRONT: *For people whose children have elevated blood-lead levels, how should they respond, and where can they find help?*

KORFMACHER: Don't panic—remember that more than 90 percent of people my age had lead levels we consider very hazardous today—but do take immediate action to find and remove the source of lead. As soon as possible, test your house and other pre-1978 places where the child spends time. Continue to test every 3 months until levels come down. And while it won't prevent or cure lead poisoning, making sure the child has regular meals and a diet rich in iron and calcium won't hurt. Finally, communicate with the school to make sure the child is proactively tested for learning or behavioral problems and offered appropriate early intervention and enrichment services.

FOREFRONT: *Beyond lead, what housing-related challenges should be addressed to improve the lives of US children?*

COULTON: Lead exposure in children is just one of the negative consequences of housing disinvestment. Poorly maintained housing also exacerbates health problems (for example, asthma), contributes to parental stress, and is associated with

residential instability. Moreover, disinvested areas have a lot of vacant housing, which is associated with crime and social disorder, and these have negative effects on children.

O'LEARY: Things that are safety issues for adults are safety issues for children. The things that our rental inspection team will be looking for include peeling paint. We're also looking for things like operating smoke and carbon monoxide detectors, excessive use of extension cords (a huge fire hazard), and plumbing leaks that will cause mold. For me, if I see peeling paint and I see no smoke detector, the immediate concern is the lack of smoke detector.

KORFMACHER: I'd say the first step is tenant education so residents know their rights and responsibilities. The second is access to free legal help to enforce those rights. As for physical challenges, I would put safety first (fire, trips, and falls), followed by asthma triggers (mold, pests, and so on). On the larger scale, we should strive for a housing system where people (residents, landlords, agencies, and housing systems) don't have to make tradeoffs between affordability and safety and quality. ■ —Michelle Park Lazette

SUM AND SUBSTANCE

The lead poisoning of children can limit their future potential. Prevention of poisoning is key, and some city leaders are improving outcomes by regularly inspecting rental housing stock and encouraging landlords to take steps to mitigate risks.

Dig deeper



Find 10 presentations delivered during the Cleveland Fed's forum "Addressing the Impacts of Lead: Moving Toward Prevention": tinyurl.com/zlpzpkko.

Rebound of Oil and Gas Spells Benefits for Region



John Shackelford
Senior Examiner,
Federal Reserve Bank
of Cleveland

Three generations of the author's family have worked in the oil industry, and he has worked for more than a decade on the federal financial regulators' Shared National Credit program. Currently, Shackelford serves as the program's subject matter expert for the oil and gas industry. The views expressed in this piece are those of the writer.

Forced to innovate and cut costs when oil and gas prices plummeted, energy companies presently operate in a lean way. With energy prices again rising, those companies are likely to invest in drilling and undertake other projects that create jobs.

The oil and gas industry is in the early phases of rebound in the Marcellus and Utica shale basins, portions of which are located in the Fourth Federal Reserve District, and that rebound might bring renewed investment and jobs to the region.

Beginning in 2014, a decline in oil and gas prices caused a severe contraction in the industry, including a cessation of new drilling activity. The price of a barrel of oil was more than \$100 in early 2014, and then it began to sink, reaching a low of nearly \$26 by early 2016. As of January 2017, the price had risen to roughly \$52.

Both oil and natural gas prices experienced a 2-year decline beginning in the first half of 2014 but have risen fairly steadily since early 2016.



Sources: Energy Information Administration; *The Wall Street Journal*. Data as of January 31, 2017.

Unlike some national oil companies in other parts of the world, energy companies in the United States are for-profit operations with shareholders who require growing earnings per share. Drilling for oil is expensive—it's not uncommon to spend millions on a single well. Thus, companies will halt drilling immediately if costs for extracting hydrocarbons exceed market prices.

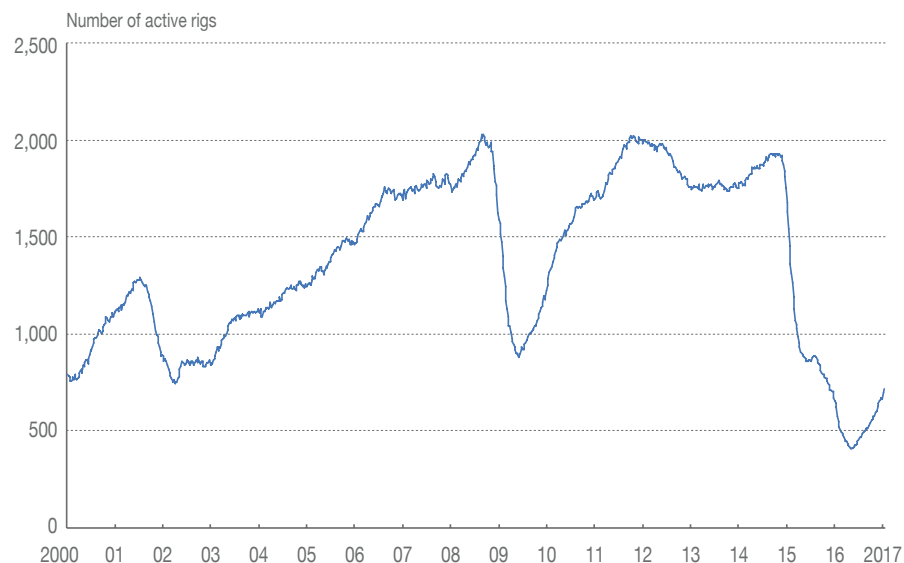
In an effort to maximize profit, many companies have found innovative ways to extract more oil and gas while spending fewer dollars. The results have been spectacular. In certain oil and gas fields, companies have lowered their break-even costs reportedly by 40 percent compared to the costs in the previous period of high drilling in 2014.

Many companies have found innovative ways to extract more oil and gas while spending fewer dollars. The results have been spectacular.

Recently, too, companies have begun unlocking previously untapped shale formations with new technologies, extracting more oil through rock that had been considered nonproducing. That is particularly true in the Permian Basin (West Texas) and in the Bakken (North Dakota) fields.

Therein lies a silver lining to the recent, rapid, and sustained decline in world oil prices: The price drop prompted initiatives, including those to lower company costs and increase innovation, that have made domestic companies very competitive with world market providers.

Active oil rigs in the United States dropped precipitously in recent years, reaching a low in mid-2016 not recorded since 2000, but their number has climbed since.



Source: Baker Hughes. Data as of January 27, 2017.

Exploration and development companies have reduced their operating costs during this economic downturn; they can produce at a price point of \$50 per barrel, economically. These companies will soon experience some upward cost pressures in their expenses, as service companies are expected to increase their prices, reportedly by 20 percent, in order to regain profitability. However, the overall structural changes that have been achieved by the industry—involving better equipment, high-speed drilling, enhanced hydraulic fracturing, better mapping of fields, and new pipelines—will bring greater drilling activity in the Marcellus and Utica fields and are expected to keep costs reduced by 25 percent, according to industry analysts.

The US oil and gas industry in 2016 comprised 5.6 percent of GDP. Salaries of the industry's workers (excluding service station attendants) average more than \$100,000 per year and are a large contributor to the economies where drilling is located. When the industry expands, it has a widespread effect on transportation, services, and the steel industry.

In 2016, when prices reached their recent low, there were more than 5,000 wells drilled that energy companies left uncompleted. These wells are basically ready for production and can be brought online in a matter of weeks. A number of such wells are in the Fourth Federal Reserve District, which comprises Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky.

The Fourth District and the United States stand to benefit as production resumes. The decline of coal utilization has eliminated many long-term jobs, especially in Appalachia. The Marcellus and Utica fields can supply a partial replacement and supplement as the coal industry adjusts.



Increases in crude prices to more than \$52 per barrel and stabilized gas prices have encouraged the major lease holding operators to increase their 2017 capital expenditures in West Virginia by 7 percent.

Increases in crude prices to more than \$52 per barrel and stabilized gas prices have encouraged the major lease-holding operators to increase their 2017 capital expenditures in West Virginia by 7 percent. One announcement promised a \$1.3 billion budget for renewed drilling using very long lateral (fracked) completions of up to 7,000 feet, a technique which would lead to more production from each well.

Additionally, Shell Oil announced plans to build an ethane cracking plant near Pittsburgh. Such a facility, during construction and when completed, could create 6,000 construction jobs and more than 600 permanent facility jobs.

The plant also would shorten the distance that oil and gas must be transported from producing wells to processing facilities. At this time, the closest processing plants are in Texas and Louisiana. Building downstream processing facilities here will benefit the long-term health of the region's production of oil and gas.

While oil and natural gas prices' recent climb is reason for optimism, it is important to consider that an increase in gas production may lead to a decrease in overall gas prices, and companies may again restrain production. Because prices are dictated by supply and demand, companies must remain diligent in balancing the supply they are producing with global demand. ■

SUM AND SUBSTANCE

Oil and gas prices are rebounding, and announcements make it clear that the oil and gas industry is again investing, including in areas of the Fourth Federal Reserve District.

Read more



Forefront explored the impact of the oil and gas slowdown on the banking industry in 2016: tinyurl.com/jkk2rt2.



Research Corner

The works featured here comprise just a sampling of what Cleveland Fed researchers produce each year. Find other recently released working papers, commentaries, and more regarding conditions in the Fourth Federal Reserve District and beyond on clevelandfed.org.

Growing Up without Finance

James R. Brown, J. Anthony Cookson, and Rawley Z. Heimer

WP 17-04 | tinyurl.com/yd4bjasa

A number of research studies have tried to find out why some households make good financial decisions and others don't. This paper investigates one possible factor: whether being exposed to financial institutions early in life is helpful. The study's results suggest that it is. The authors compare the financial decisions of people who grew up on Native American reservations that had well-developed financial institutions with people who grew up on reservations with underdeveloped institutions. Those who grew up on financially underdeveloped reservations have persistently worse consumer credit outcomes, including lower credit scores and more delinquent accounts, than those who grew up on developed reservations.

A Theory of Sticky Rents: Search and Bargaining with Incomplete Information

Randal J. Verbrugge and Joshua Gallin

WP 17-05 | tinyurl.com/y8rg8g8c

Rents change much less than economists would expect given the fact that lease contracts are relatively short and landlords could raise or lower rents every time a lease is up. Curiously, too, rents change less when fewer units are under a landlord's management. This working paper explains these facts as a consequence of information that landlords don't have about tenants and how willing a landlord is to deal with a vacancy. Because landlords don't know how willing tenants are to find other units, their rent-adjustment strategies depend on how many units they manage. Landlords with only a few units adjust the rent less often because they can't risk having an empty unit. Landlords with many units are more willing to raise rents because they know only a fraction of their tenants will leave.

Origins of Too-Big-to-Fail Policy

George C. Nurisso and Edward Simpson Prescott

WP 17-10 | tinyurl.com/yc2cnqrp

This working paper traces the origin of the too-big-to-fail (TBTf) problem in banking to the bailout of the Bank of the Commonwealth in 1972. It describes this bailout and those of subsequent banks through that of Continental Illinois in 1984. The paper argues that TBTf policy was an outgrowth of a deposit insurance system in which most failing banks were bought by a healthy bank, usually with financial assistance from the FDIC. Most of the TBTf bailouts of this period occurred because state branching restrictions at the time limited the pool of potential acquirers to those in the same state, and the troubled banks were so large that allowing a merger between one of them and another bank would have concentrated too much banking business in one big bank. The paper finds that bank concentration at the national level is now similar to what it was in the states that experienced TBTf bailouts in the 1970s and discusses the implications for modern bailout policy.

Manufacturing Employment Losses and the Economic Performance of the Industrial Heartland

Mark E. Schweitzer

WP 17-12 | tinyurl.com/y7vebp7x

The industrial Midwest has long been recognized as a distinct economic region and an important contributor to the US economy. This paper explores some of the ways in which the region differs from other regions of the United States. The author divides US metropolitan statistical areas (MSAs) into three categories and compares their economies after manufacturing began to decline in the 1970s. One set of MSAs contains MSAs that are located in the Midwest and that have a high share of employment in manufacturing industries; these are the industrial heartland MSAs. A second set contains manufacturing-intensive MSAs outside of this region, and the third contains all other MSAs ("service-intensive"). The analysis identifies two periods in which manufacturing employment fell significantly, one from 1979 to 1983 and the other from 2001 to 2010, and shows that the industrial heartland responded to those shocks differently than the other regions in terms of nonmanufacturing employment, unemployment, population, and per capita income levels.

Stabilizing Local Housing Markets in Cuyahoga County: Blight Elimination

Ten years removed from the housing crisis, local housing markets are still feeling the negative effects of the collapse. The share of foreclosed homes has declined from peak levels, but blight remains an obstacle to stabilizing local housing markets. Strategic interventions to eliminate blight balance demolition and rehabilitation of homes in order to promote housing market stability.



Kyle Fee
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To aid efforts to address the problem of blight in neighborhoods, the United States Department of the Treasury allowed Hardest Hit Fund (HHF) dollars to be used for blight elimination. The HHF is a housing initiative started by President Obama in 2010 “as part of the Administration’s overall strategy for restoring stability to housing markets.” The HHF provides funding to enable states “to develop locally-tailored foreclosure prevention solutions in areas that have been hard hit by home price declines and high unemployment.” Originally, HHF dollars were used to keep people in their homes by providing mortgage payment assistance or principal reductions.

Of the 18 states receiving HHF dollars, so far only 7 have money allocated for official blight elimination programs. Ohio ranked number 2 on that list, behind Michigan, in terms of funding dollars awarded for blight elimination, at \$238 million, or 31 percent of Ohio’s total HHF funding. According to the Ohio Housing Finance Agency (OHFA), the state agency in charge of distributing the funding, Ohio has used \$65 million of its blight elimination allocation as of the first quarter of 2017. The remaining \$173 million will have to be spent by the end of 2020 if the state doesn’t want to lose this funding.

How do counties and communities weigh the benefits of demolition—though some lament a loss of history and neighborhood texture—against the benefits of preserving older housing stock? (p. 25)

In this recent round of funding, Ohio has the second most Hardest Hit Fund (HHF) dollars dedicated to blight elimination programs.

State	Dollars allocated to blight elimination	Total HHF dollars	Percent of HHF funding allocated to blight elimination
Michigan	381,185,566	761,204,045	50.1
Ohio	238,028,701	762,302,067	31.2
Indiana	75,000,000	283,714,437	26.4
Alabama	35,000,000	162,521,345	21.5
Mississippi	20,000,000	144,291,701	13.9
Illinois	17,000,000	715,077,617	2.4
Tennessee	10,000,000	302,055,030	3.3
TOTAL	776,214,267	3,131,166,242	24.8

Source: United States Department of the Treasury, Fifth Round Funding Allocations by State.
 Note: Data as of second quarter 2016.

But what is “blight,” exactly, and what does eliminating it actually entail?

According to the Department of Housing and Urban Development (HUD), a structure is blighted “when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.” Similarly, Ohio’s blight elimination program, the Neighborhood Initiative Program (NIP), describes blight as meeting several conditions, vacancy chief among them, that when “collectively considered, adversely affect surrounding or community property values.” In a significant number of cases, “blight elimination,” often intended to stabilize home values, means demolition. When demolition occurs, finding a productive reuse for the remaining land is a subsequent but equally key component of the neighborhood stabilization process.

In Cuyahoga County, diverse perspectives and opinions around the need for demolition have emerged, creating some debate regarding the extent to which demolition plays a role in restarting local real estate markets. While there is some common ground concerning the need for both demolition and rehabilitation to produce stable neighborhoods, the exact combination of the two strategies required to produce the best results is less clear. Moreover, the diversity in Cuyahoga County’s real estate markets requires pursuing tailored demolition–rehabilitation strategies to meet the needs of each local market.



Why Cuyahoga County?

According to the OHFA, the Cuyahoga Land Bank has been allocated \$57.9 million for demolition for use by 2020. Cuyahoga County has the demolition program with the most funding, but its program isn't the only one in Ohio. The Lucas County Land Bank and the Franklin County Land Bank were allocated \$27.2 million and \$20.8 million, respectively, and the remaining 41 land banks in Ohio each received between \$0.5 million and \$17.8 million for demolition.

What makes Cuyahoga County a prime candidate for demolition, though, also makes it a prime candidate to consider the rehabilitation of existing housing stock as an approach to neighborhood stabilization.

Sean Thomas, executive director of the OHFA, says the Cuyahoga Land Bank, serving Cuyahoga County, the seat of which is Cleveland, is a prime candidate for demolition funds because of two things: the county's shrinking tax base and overburdened city services and its potential for new development that can capitalize on revitalizing neighborhoods and demographic trends favoring urban lifestyles. What makes Cuyahoga County a prime candidate for demolition, though, also makes it a prime candidate to consider the rehabilitation of existing housing stock as an approach to neighborhood stabilization.

The decision-making process used to decide if a home gets demolished may vary slightly from land bank to land bank. Gus Frangos, president of the Cuyahoga County Land Reutilization Corporation, describes the process like this: Before deciding to move forward with a demolition, "land bank officials decide what is to be demolished by professionally inspecting and evaluating the condition of premises, the cost to rehabilitate, the market value, and the marketability of a property."

A demolition decision made within a framework such as this one is essentially a function of the rehabilitation cost and market value of a property. In practice, higher market values in a neighborhood indicate that demolition may not be an option, whereas in a market in which the cost of rehabilitation exceeds the market value, demolition tends to be the outcome. While this seems like a straightforward process, it may have artificially created an "either/or" debate that pits demolition against rehabilitation when it comes to neighborhood stabilization. Rehabilitation is often more expensive than demolition, at least in terms of material and labor costs. Adding to the debate is that funding for home rehabilitation is limited because HHF dollars can't be spent on these activities.



Demolition opinions abound

In Cuyahoga County, discussions comparing rehabilitation costs and housing market values have become quite common in community development and housing circles, and not everyone agrees on the best course of action. Collegial debates turn passionate when the conversation inevitably moves toward repurposing the money allocated for the demolition program into rehabilitation dollars.

How do counties and communities weigh the benefits of demolition—though some lament a loss of history and neighborhood texture—against the benefits of preserving older housing stock? Jim Rokakis, vice president of the Western Reserve Land Conservancy, and Frank Ford, senior policy advisor for the Thriving Communities Institute at the Western Reserve Land Conservancy, counter that question with one of their own: “How and when can the market recover while the most blighted homes continue to send a message to current property owners that it makes no sense for them to invest in their homes?”

Demolition isn't only about removing some older housing stock; it's also about preserving it.

They instead suggest that we “reverse the looking glass.” Demolition isn't only about removing some older housing stock; it's also about preserving it. That is, they assert that removing the most-blighted homes in a neighborhood will ostensibly help to preserve the rest. And it's in these already vulnerable neighborhoods, Rokakis and Ford argue, that much of the predatory and abusive lending that led to the housing crisis occurred. The fragile state of these neighborhoods should be considered as carefully as possible in demolition and preservation decisions in order not to inflict further harm onto those living there.

In many areas of Cuyahoga County, neighborhoods are densely built, and demolition of blighted properties allows for an increased range of growth possibilities. Sally Martin, housing manager for the City of South Euclid, acknowledges that demolition is “just one tool in the tool box,” but, she says, it's “a crucial one.” She advocates for demolition done in context, not a vacuum: “It must be part of the overall plan for neighborhood stabilization.” She maintains that in South Euclid, “demolition has opened up a unique opportunity for new construction. In our almost fully built-out city, this option didn't exist before we began demolishing distressed properties. It's providing a housing option that wasn't available before, and these parcels are moving quickly and improving neighborhood values dramatically.”

The rehabilitated home pictured here lies in the historic Slavic Village neighborhood on the east side of Cleveland, Ohio. Photographs courtesy of the Slavic Village Recovery Project.



But there are others who warn of relying too heavily on demolition to restore neighborhood property values—or attempting to restore values while, in fact, destroying the very fabric of the neighborhoods themselves. Joel Ratner, president and chief executive officer of Cleveland Neighborhood Progress, notes his concern “that if we take down too much in some places, we will destroy the opportunity to restore markets.”

Ratner argues that we should take this opportunity to “rethink our neighborhoods,” and that includes fostering rehabilitation alongside demolition efforts. It’s one way to help save Cuyahoga County’s tax base. In relying too much on demolition, he suggests, “We’re really destroying our tax base and sending it to outlying counties. One of the ways not to do that is to make investments in our neighborhoods and rehab houses.”

Ratner concedes that it’s more expensive to rehabilitate a structure than to demolish it, but rehabilitation is an investment in a neighborhood, one that provides housing for residents and an opportunity to regain a sense of neighborhood cohesion. Demolition can also begin a nasty domino effect: “When you demolish a house, if it doesn’t restore the market, then the next empty house on that street, the next time someone dies or moves away, you’re going to need to demolish it, too. No one wants to live on a street with a bunch of abandoned houses, but nobody wants to live on a street where there’s a bunch of vacant lots, either. That’s not how people who have choices choose.” Instead, with rehabilitation, he says, “we’re looking for opportunities to restart markets”—to encourage neighborhood development—“and the best option is to restart a market.”

“No one wants to live on a street with a bunch of abandoned houses, but nobody wants to live on a street where there’s a bunch of vacant lots, either. That’s not how people who have choices choose.”

While there are differences in opinions and plans, restarting markets is something that sits near the top of nearly everyone’s wish list regarding these blighted communities. ■

SUM AND SUBSTANCE

Stakeholders looking to restart local housing markets need to work with community members collaboratively to incorporate both demolition and rehabilitation in their plans to stabilize neighborhoods.

Source file:
For more information on the Hardest Hit Fund, visit tinyurl.com/hardesthitfunds.



Letter *from the* Cleveland Fed



Goodbye, Print. Hello, Connected Content.

In the first issue of *Forefront*, published December 2009, we pledged to our readers that “the language will be clear, the concepts accessible.”

Nearly eight years later, we remain committed to our *Forefront* founders’ promise to ensure that our contributing writers explain their academic research, translate trends into real-world concepts, and provide insights into complex issues. Our focus is and always will be on providing excellent content using accessible language.

We strive to provide perspectives and data on issues that impact business and community development leaders, consumers, bankers, policymakers, civic leaders, and members of the broader public. We want to provide even more value to you, our readers, by providing more context for each story, in part through offering immediate connections to other Cleveland Fed material and beyond. With this goal in mind, we are converting the print-and-online publication of Cleveland Fed’s *Forefront* magazine to an online-only publication. Our new online news hub will offer the same well-researched and accessible content you’ve come to expect, and more, all of it available on clevelandfed.org.

The online-only format gives you access to graphics, downloadable data and charts, and immediately consumable related content. You’ll get deep dives on topics we can explore without the space constraints of print. You can share content easily and tell us what topics you’d like to see more—or less—of. Our goal is to enhance your experience and to provide ways for you to communicate with us.

We talked with *Forefront* subscribers and our colleagues earlier this year to find out how they stay informed and engaged with their work and their interests. You’ve told

us you like accessing related articles as you’re browsing a topic, you like graphics that show you something new, and you appreciate photo galleries. Our move online will provide all 3 and more.

Our content will continue to be rooted in robust research, to provide the views of experts both inside and outside the Cleveland Fed, and to explore issues that are of importance on local and national levels. Last year, we brought you an in-depth 5-part series that looked at eastern Kentucky’s transition away from a coal-centric economy and into a new future. Over the years, we’ve focused on the Great Recession, student loan debt, regional communities, and banking trends.

With each of the pieces we publish, we will continue to provide you context for the data we collect and the research we conduct and to inform you about the region in which you live, work, and play.

In this last print issue, we invite you to sign up for our monthly e-newsletter, *Cleveland Fed Digest* (clevelandfed.org/cfd-subscribe). Launched in March 2017, the digest highlights new work, graphics, and event information and features an “Ask the Expert” exclusive.

Please join us at clevelandfed.org—search for our news hub, Connections, coming soon—as we continue to explore topics you care about.



Marilyn Wimp
Vice President and Public Information Officer
Corporate Communications and Engagement

Policy Summit 2017 Draws Hundreds to Cleveland



Sydney A. Stone
Communications Coordinator

On June 22 and 23, the Cleveland Fed hosted its signature biennial policy event in downtown Cleveland: the 2017 Policy Summit on Housing, Human Capital, and Inequality. An audience of more than 300 policymakers, economists, community development professionals, and others came together for the 2-day summit to discuss enduring economic and social issues challenging the Cleveland Fed's District and other areas of the country. Throughout the event, speakers shared research and policy options on myriad topics ranging from fintech lenders to the opioid addiction crisis that is ravaging families and communities in the Fourth District and across the nation.

J.D. Vance started the event speaking about his childhood experiences growing up in Middletown, Ohio, the inspiration behind his memoir, the *New York Times* bestseller *Hillbilly Elegy: A Memoir of a Family and Culture in Crisis*.

Vance pointed to his own experiences in discussing many of the complicated social and economic issues that plague communities in the Appalachian region of the United States, an area that lies partially in the Cleveland Fed's geographic Fourth Federal Reserve District, comprising Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia.



During a Q&A at the 2017 Policy Summit, keynote speaker J.D. Vance fields a question about how people who hope to escape poverty can do so without leaving an area. Mary Helen Petrus of the Cleveland Fed moderates.

Speakers shared research and policy options on myriad topics ranging from fintech lenders to the opioid addiction crisis.

“The problems that Rust Belt families encounter are complex, and I found the best way to communicate these issues is to write about them as people and families with courage, passion, and bravery who also have their problems,” Vance said.

The Policy Summit included a mix of panel-style plenaries, research and practitioner breakout sessions, and a closing speech by Cleveland Fed President and Chief Executive Officer Loretta J. Mester. Friday morning’s panel titled “Storytelling through Creative Expression” featured examples of the way that art—whether written, oral, or visual—has transformed communities. The panel highlighted the Cleveland Fed Scholars program, a summer intern program for Cleveland-area high school students, as one of these creative endeavors, citing *Somewhere in Cleveland: The Cleveland Fed Scholars Story Project*, a book of

poetry and stories the scholars wrote. The book was produced in collaboration with Lake Erie Ink and Esperanza Inc., 2 Cleveland-area nonprofits. Download your own free copy of the book at tinyurl.com/CFS-story-project.

Learn more about the 2017 Policy Summit and dive deeper into specific research and practitioner sessions at clevelandfed.org/2017policysummit. ■

SUM AND SUBSTANCE

Policymakers, economists, community developers, and other guests gathered at the Policy Summit in June for outside-the-Beltway discussions of policy, research, and practitioner options to help address some of the region’s most pressing economic and social challenges.

Fed Scholars Pen Book

For several years, the Federal Reserve Bank of Cleveland has partnered with community organizations to employ students from area high schools in a summer internship program called the Fed Scholars program. The students learn about career paths, acquire workplace and life skills, and contribute to the Bank’s education and museum outreach. In 2017, for the first time, 7 Fed scholars became published authors. Read *Somewhere in Cleveland: The Cleveland Fed Scholars Story Project*, available for download at tinyurl.com/CFS-story-project. After the book’s publication, the scholars met with civic leaders and with their peers to share their stories.

The Fed scholars at Lincoln-West High School in Cleveland, Ohio, to preview their book *Somewhere in Cleveland*. Photo courtesy of Michael Galka, Federal Reserve Bank of Cleveland.

The Fed Scholars program was one of those featured at this year’s Policy Summit in a session focused on innovative programs that use art to engage multicultural groups, urban youth, and other under-tapped voices in civic life and discourse as a way to capture the narrative fabric of people and place.



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