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## A Brighter Future Equity Program Helps Renters Build Wealth

By Lisa Locke

Safe and affordable housing is a pressing issue for many residents in the Over-the-Rhine neighborhood of Cincinnati. The low-income community has more than its fair share of neglected and vacant buildings. One organization, Cornerstone Corp. for Shared Equity, is not only providing single-family housing, but much-needed rental units—with a twist.

Cornerstone was established in 1986 as a community development loan fund. The socially responsible loan fund attracts investments from individuals and organizations, pools the funds and then make loans to nonprofit community-based housing developers.

Over the last 20 years, Cornerstone has helped 30



*Landscaping at St. Anthony Village in the Over-the-Rhine neighborhood of Cincinnati is maintained by residents.*

nonprofit organizations develop more than 300 housing units—both for sale and for rent—for low-income households. Although the loan fund has been successful in produc-

ing affordable housing units, Margery Spinney, executive director of Cornerstone, recognized that not all low-income renters want to be homeowners. She also recognized that

renters still deserve safe, decent and affordable housing and opportunities to accumulate assets. As such, she developed an innovative concept called Renter Equity, a program that enhances the financial security of low-income renters.

The Cornerstone Renter Equity program started in 2002 in the Over-the-Rhine neighborhood. It is a unique model in which low-income renters build wealth, develop ownership skills and help stabilize their community. In addition, property owners benefit from the Renter Equity program because it helps increase property values, attracts more stable residents and generates greater interest in the property and neighborhood.

So what is Renter Equity? Each month that residents

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## Over-the-Rhine: What Once Was

Over-the-Rhine is a neighborhood in Cincinnati, Ohio, that is rich in history and tradition. In the late 19th and early 20th centuries, the neighborhood became home to many of the German immigrants settling in the United States. Historians recall the neighborhood during these early days as thriving, densely populated, architecturally elegant and as a center of social and cultural activity.

Over-the-Rhine was known for its grand Italianate structures, three- to five-story row houses, restaurants, retail shops, grocery stores, churches and theaters. The socioeconomic status of the neighborhood was diverse, made up of new immigrants looking for work and owners of various types of businesses.

By the late 19th century, the Over-the-Rhine population was almost 45,000. As the city of Cincinnati continued to grow, the economic and demographic character of the historic neighborhood began to change. Many of the affluent residents of the community began to leave the urban core and move to the suburbs, stripping the neighborhood of cultural networks and vital economic resources.

Today, the historic neighborhood still has remnants of Italianate architecture and historic churches, but many of the once-admired buildings have been abandoned or demolished.



## Renter Rewards

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participating in the program fulfill the requirements of their lease agreement, which includes paying their rent on time, attending monthly resident meetings and maintaining designated common areas on the property, they earn “equity credits” toward a cash payment.

Carol Smith, Cornerstone Renter Equity coordinator, says finding residents to participate in the program is not difficult. “It’s not about changing people, but about providing an opportunity for individuals who have always done what is required in the Renter Equity program,” she says.

Each equity credit earned has an equivalent cash value. For example, the first month’s credit has a value of \$57.78. Twelve months of credits have a cumulative value of \$715.98 and 24 months of credits have a cumulative value of \$1,483.73. After five years, residents are vested, and the credits can be converted to a cash payment through Cornerstone. “Most of the residents average about \$3,500 in Renter Equity credits in five years,” Spinney says.

Funding for Renter Equity comes from a variety of sources, such as developers fees, management fees, grants and reserves saved by keeping the occupancy rate high.

Although Cornerstone does not stipulate in the lease agreement what residents can purchase with their earned

equity, the company encourages residents to use the money in ways that will improve their lives, such as making a down payment on a house, starting a business, continuing their education, paying off debt or just continuing to save. Residents can accumulate as much as \$10,000 in equity credits over 10 years.

Another innovative component of the Renter Equity program is the ability for residents to borrow against their credits, even before they are fully vested. The concept is similar to a home equity loan. Equity credits are used as collateral. In the first year of residency, households can borrow the equivalent of one month’s rent at a zero percent interest rate with a 12-month repayment schedule. In years two through five, households can borrow up to two months of their rent. Residents who are fully vested can borrow up to 80 percent of their earned equity credits.

Sharon Jones, a six-year resident, said the Renter Equity program “has been a dream come true.” Jones has borrowed against her equity credits for her daughter’s college tuition. Other typical uses of the loans are for short-term emergencies, such as medical expenses, car repairs, new appliances and as an alternative to high-cost payday lenders.

Currently Cornerstone Corp. for Shared Equity has two Renter Equity communities and is developing a third community. They are all located in the

Over-the-Rhine neighborhood.

The first Renter Equity community, St. Anthony Village, was completed in 2002 and reached the five-year milestone in June 2007. It offers 22 two- and three-bedroom apartments. Residents of St. Anthony Village have earned almost \$40,000 in financial equity.

The second Renter Equity community, Community Views, was completed in 2005. It has 14 apartment units, which were occupied as soon as construction was completed.

The third community, Friars’ Court, is under construction, with a target completion date of June 2009. Friars’ Court will add 26 units to the Renter Equity program. As the owner and developer of Friars’ Court, Cornerstone is continuing its revitalization efforts in Over-the-Rhine but with another new twist: The company is employing and training residents from the community. The trainees are learning carpentry, dry walling, painting and other basic skills necessary to obtain employment with other construction companies once the Friars’ Court project is complete.

For more information on the Renter Equity program, visit [www.cornerstoneloanfund.org](http://www.cornerstoneloanfund.org) or send an e-mail to [info@cornerstoneloanfund.org](mailto:info@cornerstoneloanfund.org).

*Lisa Locke is a community development specialist at the Louisville Branch of the Federal Reserve Bank of St. Louis.*

# Snapshot

## An Ordinary Suburb, an Extraordinary Number of Foreclosures

By Michael Duncan

There are many aspects to the foreclosure crisis. Initially, the crisis was seen as limited to cities with severe economic problems and declining population, such as Cleveland and Detroit. More recently, the crisis often has been characterized as resulting from speculative excess in rapidly growing areas, such as Las Vegas, Phoenix, Southern California and Florida.

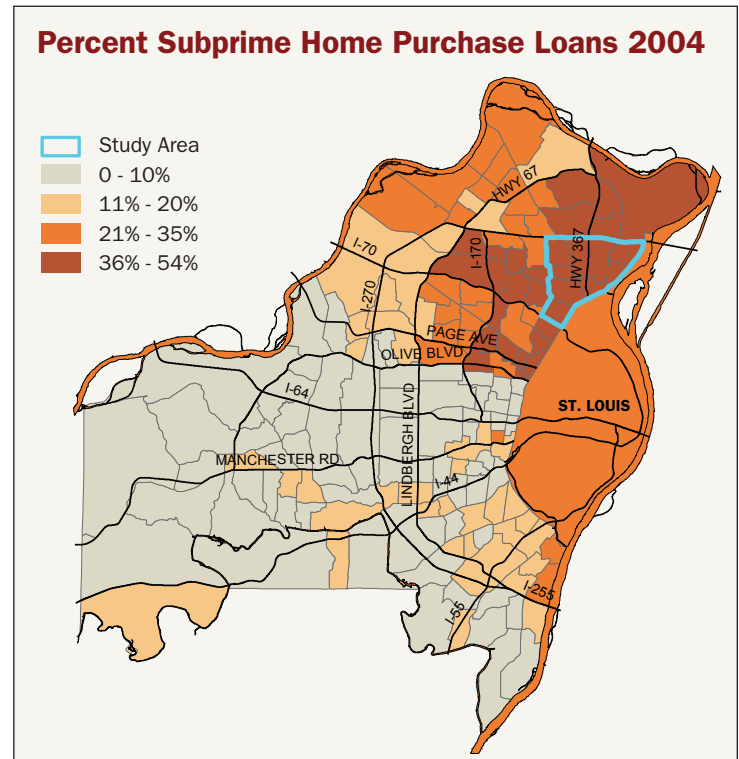
The St. Louis metropolitan area has ranked close to national averages in the severity of the foreclosure problem for the last year. Problems were noticed in 2006 in the City of St. Louis and St. Louis County, but have spread throughout the metropolitan area. In December 2007, the number of subprime loans delinquent 30 days or more was between 35 percent and 40 percent for each of the large counties (Jefferson, Franklin, St. Charles and St. Louis counties) and the city of St. Louis in the Missouri side of the metro area.

In St. Louis County, the largest county in the St. Louis area, the epicenter of the foreclosure crisis is found in neither rapidly growing nor rapidly declining areas. Rather, it is the ordinary, unremarkable

postwar suburbs of northeast St. Louis County that have the highest concentration of foreclosures. The concept of "First Suburbs" has become popular in recent years, referring to suburbs that were developed in the immediate postwar years and that have now undergone demographic and economic transitions. My focus will be on a paradigmatic First Suburb that has undergone considerable stress from the foreclosure crisis, the northeast St. Louis County suburbs.

St. Louis County is notoriously fragmented into clusters of small municipalities and unincorporated areas. The northeast county study area is bounded by Interstate 270 on the north, Interstate 70 on the south, West Florissant Road on the west and on the east by the city of St. Louis and the cities of Jennings, Dellwood, Bellefontaine Neighbors, Moline Acres and Riverview Gardens as well as unincorporated neighborhoods and contains ZIP codes 63136 and 63137.

Row upon row of modest brick and frame houses took shape in the late 1940s and early 1950s, often on curving, tree-shaded lanes. The first inhabitants were working-class families who had jobs at the GM plant in nearby north



St. Louis or at Emerson Electric. They were moving out of the crowded city of St. Louis to live the American dream in their fresh new suburban homes. The northeast county population peaked in 1970, with 76,959 residents, of whom 97 percent were white. The first generation grew older, and the population declined to 65,142 in 1990. Landmarks such as the River Roads and Northland shopping centers, the first

suburban shopping centers in St. Louis, declined and were eventually abandoned. The Emerson Electric world headquarters, an employment bastion, held on as some nearby employers, such as the large GM assembly plant in St. Louis, left the area.

During the 1990s, a sweeping generational turnover took place, and a new class of moderate-income, black

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## Snapshot

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homeowners moved into these neighborhoods. The population stabilized at 65,011 in 2000. The number of children increased 20 percent and the population over 55 years of age decreased 25 percent between 1990 and 2000. Children comprised 32 percent of the population, compared to 25 percent for the entire county. Predominantly white in racial composition in 1990 (61 percent), the population became largely black by 2000 (69 percent). The area grew dramatically younger, with two-thirds of working-age adults under the age of 45 in 2000, and the percentage of adults with some

college increased from 36 percent to 44 percent from 1990 to 2000. Homeownership remained strong, with 70 percent of homes owner-occupied in 2000, above the national average. Blacks now made up 59 percent of all homeowners.

In recent years, several major development projects began. Buzz Westfall Plaza in Jennings replaced the abandoned Northland Shopping Center, with a contemporary development anchored by a Target department store and a Schnucks grocery store. A former drive-in movie theater became Alexandria Place, the first major infill market-rate new residential project for miles around. Just to the west, a major redevelopment project, NorthPark, will

offer a modern office mixed-use center that is anticipated to be the most significant new employment center in the St. Louis metro area. And Express Scripts is building a new corporate campus, closely integrated with the University of Missouri-St. Louis. The area remains one of promise for the future of St. Louis.

What was the housing stock that these young families inherited? It is remarkably homogeneous, with the average home in northeast county built in 1950, having 1,056 square feet of living space and being appraised at \$76,000 in 2007. St. Louis County has many such small-house communities with more than 100,000 homes that were built before 1960 and are under 1,200 square feet in size.

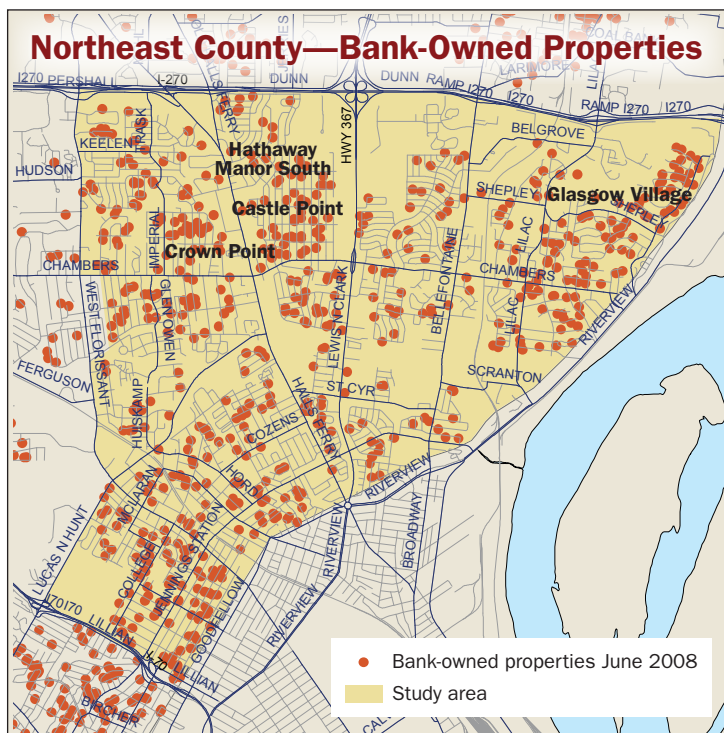
Post-2000 data are not available yet from the American Community Survey for the study area. For the larger northeast St. Louis County area (including areas north of I-270), however, the 2006 data show a stable population, continued growth in the population under 18 and in the black population, and most noteworthy, a rapid increase in homeownership costs. Median monthly homeowner costs rose 30 percent from 2000 to 2006, compared to a 20 percent increase for St. Louis County as a whole, one of the few indicators in census data of the impending mortgage crisis. Young homeowners (under age 35) were most affected.

The rapid growth of subprime lending nationwide after 2000

aroused both hopes of increased homeownership opportunity and fears over predatory and high-risk lending practices among observers such as Edward Gramlich, formerly of the Federal Reserve Board. Subprime lending had grown from 6 percent to 24 percent of first-lien loans nationwide between 2001 and 2006.

Subprime lending also became prevalent in the northeast county study area. Home Mortgage Disclosure Act (HMDA) data provide a census-tract-level view of the quantity of loans from subprime lenders and high-cost loans. The HMDA data for subprime lending in northeast county from 2000 through 2004 show an increasing share of subprime lending for both purchase loans and refinancing (from 28 percent to 42 percent) and a noteworthy increase in volume, from 689 subprime loans in 2001 to 1,523 in 2004. The high interest rate loan data from 2005 to 2006 show very high levels of high interest rate loans during 2005 (71 percent) and 2006 (75 percent) for purchase loans. The dramatic increases in share and volume of subprime lending are reflected in a significant increase in sales volume and prices during the same time period.

Subprime lending pumped up the housing market in northeast county and across the country, supporting a marked but unsustainable increase in property values. Average sales prices rose steadily throughout the decade, from an average of



\$58,000 in 2000 to \$82,000 in 2005. Sales volume increased dramatically, almost doubling from 2004 to 2007 (no foreclosures or bank-owned property sales included). It didn't last. Market sales prices (excluding foreclosures) fell in 2006 and 2007, reaching \$68,000 in 2007, just below 2003 values.

The consequences of the rapid increase in subprime lending were quickly seen. Between 2004 and 2008, the northeast suburbs had dramatically higher levels of foreclosure activity than St. Louis County as a whole. With only 6 percent of the housing units in the county, the area had 23 percent of the foreclosures (3,007). Put another way, county foreclosures between 2004 and 2008 amounted to 4 percent of the number of single-family homes and condos, while foreclosures in the study area were 14 percent of single-family homes and condos. The annual number of foreclosures hovered around 400 between 2000 and 2003, then increased to between 700 and 800 from 2006 through 2008.

In the first five months of 2008, the level of foreclosure activity stabilized in the northeast suburbs, although at very high levels, while foreclosures increased throughout St. Louis County and the St. Louis metro area.

While the upsurge of foreclosures in this area appears to have crested, a residue of bank-owned properties is left behind that will strain the

capacity of the housing market. In June 2008, there were 594 lender-owned properties resulting from 2007-2008 foreclosures, in a market area where the number of sales averages around 1,100 per year. It will be an enormous challenge for lenders to maintain these properties and eventually sell them without causing a deflation of the overall market.

Looking back, we can see that the growth of subprime lending caused an unsustainable upsurge in property value, while ensuring that unprecedented numbers of failed loans would flood the market with lender-owned properties, thus causing the inevitable downturn in property values to accelerate. Actions such as the Federal Reserve Board imposition of enhanced Truth in Lending regulations on July 14, 2008, and the enactment of the Housing and Economic Recovery Act of 2008 on July 30, 2008, cannot undo the harm already done, but will restrict future abusive lending practices and offer support to housing markets. (See related story on p. 9.)

We know that 3,000 property owners in the northeast suburbs of St. Louis County lost homes through foreclosure between 2004 and June 2008. We don't know the individual details of how and why these loans failed. We don't know the mix between homeowners and investors or the impact on families and children or where former homeowners live now. All of these questions

pose useful topics for researchers. We do know that failures within the lending industry and failures of regulation have had a destructive impact on a community that still has much promise for the future.

The First Suburbs were the cradle of the baby boomers. Many of us grew up in places like St. Louis County's northeast suburbs and have moved on to be decision-makers in most of society's institutions. In the worlds of mortgage lending, investment finance and government, we failed to stop practices that led to the foreclosure crisis and, in doing so, failed to help defend the neighborhoods that we grew up in and the families who inherited those neighborhoods.

*Michael Duncan is research and information technology manager for the St. Louis County Department of Planning. He has been tracking and analyzing the foreclosure crisis in St. Louis County since 2005 with the Metro St. Louis Foreclosure Intervention Taskforce.*

## Have you HEARD

### **Forgiven Mortgage Debt May Qualify for Tax Relief**

Homeowners struggling with house payments or foreclosure issues may find some relief from the Internal Revenue Service.

If mortgage debt has been partly or entirely forgiven for 2007, 2008 or 2009, homeowners may be able to claim special tax relief by filling out Form 982 and attaching it to their federal income tax return for the appropriate year.

Debt reduced through mortgage restructuring or forgiven in connection with a foreclosure may qualify for this relief. The debt must have been used to buy, build or substantially improve a principal residence and must have been secured by that residence. Debt used to refinance qualifying debt is also eligible for the exclusion, but only up to the amount of the old mortgage principal, just before the refinancing.

Debt forgiveness normally results in taxable income. But under the Mortgage Forgiveness Debt Relief Act of 2007, homeowners may be able to avoid paying taxes on up to \$2 million of debt forgiven on a principal residence. The limit is \$1 million for a married person filing a separate return.

The tax relief does not apply to debt forgiven on second homes, rental property, business property, credit cards or car loans.

For more information, visit the IRS web site at [www.irs.gov](http://www.irs.gov).

# Economic Engine

## University of Memphis Works with Nearby Neighborhoods on Revitalization

By Kathy Moore Cowan

Not too long ago, some colleges and universities had reputations of being bad neighbors, venturing into the neighborhoods only to gobble up available property for campus expansions. But times change, and across the country, academic institutions have redefined their relationships with surrounding communities, becoming valuable assets to community and economic development.

Since 1995, the number of college and university presidents who are members of Campus Compact, a national coalition seeking to advance civic engagement, has grown from 400 to 1,100, representing a quarter of all American higher education institutions. This past spring, 27 Tennessee college and university presidents formed the Tennessee Campus Compact, becoming the 33rd state Campus Compact.

It is no surprise that University of Memphis President Shirley Raines serves on the executive board of the Tennessee Campus Compact. Since her tenure at the University of Memphis, the university has formed partnerships with neighborhood and business groups and embarked on a strategy to engage the



Members of the University Neighborhoods Development Corp. (UNDC) discuss construction on Highland Avenue in Memphis, Tenn. Shown are, from left: Ann Coulter; Steve Barlow, UNDC executive director; Charles Lee; and Peter Moon. UNDC is a nonprofit organization dedicated to improving the University District.

community in a new and refreshing way. The university's efforts recently were recognized by the Carnegie Foundation for the Advancement of Teaching, receiving the foundation's highest classification for community engagement.

Most of the university's work in communities falls under its "Engaged Scholarship" initiative, an ongoing effort to link faculty members and students with urban, regional, state, national and global communities. The goal is to provide real-world applications in the urban environment, integrating academic, economic development and community-building efforts with a focus on interdisciplinary applied research.

Many of the university's Engaged Scholarship efforts have been in surrounding neighborhoods, known collectively as the University District. For example, students in the graduate program in city and regional planning partnered with neighborhood organizations, the City of Memphis Division of Housing and Community Development (HCD) and the Memphis and Shelby County Office of Planning and Development to prepare a comprehensive plan to guide the growth of the University District.

In another example, university students worked with the Mason YMCA to give the 1950s-building a much needed

face-lift. Independent graduate student research helped determine what additional activities and facilities members wanted. Architectural students prepared the designs for the revamped facility. Public relations students developed marketing materials for a \$12 million fund-raising campaign.

Yet another example is the University District Initiative, a partnership formed to address social, urban design and safety issues in the area. The partnership includes faculty and students from every college, senior staff from the university administration, city planners, developers, business owners, neighborhood groups and local government representatives from the city of Memphis and Shelby County.

Two of the more ambitious efforts the university has undertaken are the University Neighborhoods Development Corp. and the Center for Community Building and Neighborhood Action.

### University Neighborhoods Development Corp.

In 2003, the University of Memphis partnered with neighborhood leadership to create the University Neighborhoods Development Corp. (UNDC), a 501(c)3 nonprofit, neighborhood-based corporation. An

independent entity, the UNDC's role is to redevelop and promote the University District as a great place to live, learn and do business. The UNDC would accomplish this by reinforcing existing strengths, stimulating new public and private investment, and bringing new tools for development to the market.

One of the first tasks was to develop a community and economic development strategy, closely coordinated with community and university leadership. In 2006, the UNDC hired a local architectural and planning firm to develop a planned growth strategy. In the summer of 2007, Steve Barlow became the UNDC's first executive director and was charged with overseeing the strategy, now called the Highland Street Master Plan.

In the past year, the UNDC, in collaboration with the University of Memphis, helped a local developer obtain a tax increment finance (TIF) district designation, worth in excess of \$10 million. Without the TIF, the developer said, he could

not have completed a planned \$65-million, mixed-use project in the University District.

Other accomplishments include development of a neighborhood-based comprehensive plan, a public art project and a series of neighborhood beautification efforts. Plans are under way to develop a public-private land acquisition fund and to implement a National Trust for Historic Preservation Main Street Program.

The university is a much valued resource to the UNDC, providing significant technical resources. Barlow estimates the dollar value of services provided by the university in the past year alone at approximately \$200,000.

#### **Center for Community Building and Neighborhood Action**

Not all of the university's Engaged Scholarship efforts are focused on the University District. Many neighborhoods have benefited from the work of the Center for Community Building and Neighborhood Action (CBANA). CBANA links

university research with community action. A part of the School of Urban Affairs and Public Policy, CBANA was created in 2000 as an outgrowth of individual projects university professors and staff were working on in housing, neighborhoods and workforce development.

"CBANA is a critical resource and partner to Memphis CDCs," says Emily Trenholm, executive director of the Community Development Council of Greater Memphis (CDCouncil), a trade organization for CDCs. "Its staff works with organizations on a variety of projects, such as asset mapping, problem property surveys, and analyses of neighborhood demographics and real estate market indicators." CBANA's efforts help CDCs develop data-driven strategies and interventions for change.

Phyllis Betts, associate professor, School of Urban Affairs and Public Policy and founder of CBANA, serves as its director. She is the only University of Memphis employee assigned to CBANA. Salaries for all other

staff persons are funded through grants. In addition to the University of Memphis, HCD is a major supporter of CBANA.

The following are some of the programs CBANA offers.

#### ***Neighborhood-by-Neighbor***

In March 2008, CBANA, along with HCD, implemented the Neighborhood-by-Neighbor program, the first citywide problem property audit initiated in Memphis. The goal of the program is to document blight and vacancy in the housing market through an organized inventory of all properties in violation of the city's Anti-Blight Housing Code.

Data collection and volunteer recruitment is coordinated by CBANA and the Problem Properties Collaborative, a grassroots organization of community-based associations.

"The neighbors' knowledge of the properties, neighborhoods and neighborhood resources is important," says Tk Buchanan, program coordinator. "Their

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# **"The futures of institutions of higher education are inexorably tied to the health of their communities."**

**—from *Leveraging Colleges and Universities for Urban Economic Revitalization: An Action Agenda***

*At right: Tk Buchanan (standing center) demonstrates how to use GIS hand-held PCs to Frayser residents participating in the Neighborhood-by-Neighbor program.*



## Economic Engine

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participation is crucial to our success.”

CBANA staff train volunteers on common housing code violations and the use of portable tablet PCs with built-in cameras running GIS software. Volunteer teams drive down each street and conduct a “windshield survey” of their neighborhoods, documenting blighted properties. A pre-loaded neighborhood map with satellite photos allows volunteers to document where the troubled structures are and to take a picture.

CBANA analyzes and distributes the data to participating organizations, including a copy of the database and a comprehensive map of rehabilitation opportunities in the neighborhood. CBANA also provides the neighborhood with technical support in achieving code compliance through grant applications, redevelopment planning, beautification project planning, environmental court and other creative ways.

### Community-Based Research

For cash-strapped nonprofits, money for research is an item that often gets cut from the budget, no matter how tremendous the need. Steve Lockwood, executive director of Frayser Community Development Corp. (CDC), says, “The data generated at CBANA, particularly that involving foreclosures and housing conditions, has been

invaluable in crafting our strategies to counter epidemic foreclosure rates in the community.”

Sutton Mora Hayes also has used CBANA research and resources in her work as executive director of the Cooper Young Development Corp. (CYDC). “They have helped me analyze foreclosure rates, code enforcement problems, and other social issues that have directly impacted our programming.”

Some of the signature community-based research programs of CBANA include community/neighborhood indicators, neighborhood inventory, asset mapping, community profiles and comprehensive community initiatives.

### Student Internships

CBANA coordinates internships for graduate and undergraduate students who are interested in community development. Students are placed for the academic year with nonprofit CDCs, where they provide technical and research assistance, 20 hours a week. In return, interns receive community development experience, a monthly stipend, course credit and a tuition fee waiver. In addition to the University of Memphis, the program is supported by HCD through use of Community Development Block Grant funds.

Curtis Thomas, deputy executive director for The Works, a nonprofit community development corporation, was a CBANA intern with the CDCouncil. He researched and mapped patterns of government

## For more information:

### Campus Compact

[www.compact.org](http://www.compact.org)

### Carnegie Foundation for the Advancement of Teaching

[www.carnegiefoundation.org/classifications](http://www.carnegiefoundation.org/classifications)

### University of Memphis Engaged Scholarship

<http://cas.memphis.edu/suapp/>

### University Neighborhood District Corp.

<http://cas.memphis.edu/community/undc.htm>

### University of Memphis Center for Community Building and Neighborhood Action

<http://cbana.memphis.edu>

infrastructure spending for the CDCouncil’s Coalition for Livable Communities, a group of community associations seeking to create healthy communities in the Memphis region.

Reflecting on his experience, Thomas says, “I was exposed to a range of organizations and programs in the Memphis area, which helped me to develop a better understanding of the state of our community and what efforts currently exist. These experiences were instrumental in shaping my career path and have been an invaluable resource in my role as deputy executive director for The Works.”

Hayes remembers her days as a CBANA intern with New Pathways. “I received first-hand knowledge and hands-on experience while connecting with key leaders in the community development industry in Memphis. It was, in part, due to those connections that I was

hired as the executive director of CYDC after I graduated.”

Trenholm says interns have performed a variety of assignments for Memphis CDCs, from writing policy manuals and marketing plans to helping organize and engage neighborhood residents.

And Lockwood says Frayser CDC has been fortunate to have had CBANA interns for the last six years. They have been critical in helping the CDC implement its work plan, he says. After receiving her undergraduate degree in August of this year, Frayser CDC’s CBANA intern immediately began working full time with them as a homeownership and foreclosure counselor.

*Kathy Moore Cowan is a community development specialist at the Memphis Branch of the Federal Reserve Bank of St. Louis.*



# New Reg Z Rule Applies to All Mortgage Lenders

The Federal Reserve Board recently approved a final rule for home mortgage loans. The rule is intended to provide better protections for consumers and facilitate responsible lending.

The rule amends Regulation Z (Truth in Lending) and was adopted under the Home Ownership and Equity Protection Act (HOEPA). The final rule largely follows a proposal released by the Board in December 2007, with some changes that take into account public comments, consumer testing and further analysis.

“Importantly, the new rules will apply to all mortgage lenders, not just those supervised and examined by the Federal Reserve,” says Federal Reserve Chairman Ben S. Bernanke. “Besides offering broader protection for consumers, a uniform set of rules will level the playing field for lenders and increase competition in the mortgage market, to the ultimate benefit of borrowers.”

The final rule adds four protections to a newly defined category of “higher-priced mortgage loans” secured by a consumer’s principal dwelling:

- A lender is prohibited from making a loan without regard to the borrower’s ability to repay the loan from income and assets other than the home’s value. A lender complies, in part, by assessing repayment ability based on the highest scheduled payment in the first seven years of the loan. To show that a lender violated this rule, a consumer does not need to demonstrate that it is part of a pattern or practice.
- Creditors are required to verify the income and assets they rely on to determine repayment ability.
- Prepayment penalties are banned if the payment can change in the initial four years. For other higher-priced loans, a prepayment penalty period cannot last for more than two years. This rule is substantially more restrictive than originally proposed.
- Creditors are required to establish escrow accounts for property taxes and homeowner’s insurance for all first-lien mortgage loans.

The rules also adopt the following protections for loans secured by a consumer’s principal dwelling, regardless of whether the loan is higher-priced.

- Creditors and mortgage brokers may not coerce a real estate appraiser to misstate a home’s value.
- Companies that service mortgage loans may not engage in certain practices, such as pyramiding late fees. In addition, servicers are required to credit consumers’ loan payments as of the date of receipt and provide a payoff statement within a reasonable time of request.
- Creditors must provide a good-faith estimate of the loan costs, including a schedule of payments, within three days after a consumer applies for any mortgage loan secured by a consumer’s principal dwelling, such as a home improvement loan or a loan to refinance an existing loan. Currently, early cost estimates are only required for home-purchase loans. Consumers cannot be charged any fee until after they receive the early disclosures, except a reasonable fee for obtaining the consumers’ credit history.

For all mortgages, advertising rules now require additional information about rates, monthly payments and other loan features. The final rule bans seven deceptive advertising practices, including representing that a rate or payment is fixed when it can change.

The rule’s definition of “higher-priced mortgage loans” will capture virtually all loans in the

subprime market, but generally exclude loans in the prime market. To provide an index, the Federal Reserve Board will publish the average prime offer rate, based on a survey currently published by Freddie Mac. A loan is higher-priced if it is a first-lien mortgage and has an annual percentage rate that is 1.5 percentage points or more above this index, or 3.5 percentage points if it is a subordinate-lien mortgage. This definition overcomes certain technical problems with the original proposal, but the expected market coverage is similar.

One element of the original proposal has been withdrawn. The Federal Reserve Board had asked for public comment on certain requirements pertaining to so-called “yield-spread premiums.” During the intervening period, the Board engaged in consumer testing that cast significant doubt on the effectiveness of the proposed rule. As part of its ongoing review of closed-end loan rules under Regulation Z, however, the Board will consider alternative approaches.

The new rules take effect on Oct. 1, 2009. The single exception is the escrow requirement, which will be phased in during 2010 to allow lenders to establish new systems as needed.

# SPANNING THE REGION



THE REGION SERVED BY THE FEDERAL RESERVE BANK OF ST. LOUIS ENCOMPASSES ALL OF ARKANSAS AND PARTS OF ILLINOIS, INDIANA, KENTUCKY, MISSISSIPPI, MISSOURI AND TENNESSEE.

## Kentucky Sets Up Center for Homeowners in Trouble

The 2008 Kentucky General Assembly has established the Kentucky Homeownership Protection Center to address the state's foreclosure issue. The center provides support and guidance to homeowners who are in default or in danger of defaulting on their mortgage loan.

The center is administered by the Kentucky Housing Corp. (KHC), which will collect data for the governor's office.

KHC has created a referral system in conjunction with service providers in counseling and Legal Aid. Homeowners can call a toll-free number if they need help. The number is 1-866-830-7868. Information and resources for Kentucky homeowners also are available at [www.ProtectMyKYHome.org](http://www.ProtectMyKYHome.org).

The center is a joint effort of the Department of Financial Institutions, KHC and many other organizations across the state.

## Benefit Bank of Arkansas Opens Argenta CDC Site

The Benefit Bank of Arkansas recently opened a new site at Argenta CDC in North Little Rock, Ark.

Benefit Bank is a \$1.4 million program funded through Temporary Assistance for Needy Families. Its purpose is to provide convenient offices where families can go to learn about benefits that may be available to them.

Each year in Arkansas, about \$280 million in benefits and tax refunds, most of which are federal, go unclaimed. The program emphasizes the Earned Income Tax Credit, food stamps, Transitional Employment Assistance and medical benefits, including Medicaid and ArkKids B.

The Benefit Bank is a joint effort between the state of Arkansas and the Arkansas Interfaith Conference in partnership with the Department of Workforce Services and Department of Human Services.

Benefit Bank is offering this free public service from 9:30 a.m. to 4:30 p.m. Monday through Friday by appointment only at Argenta CDC, 401 Main St., Suite 200, in North Little Rock. Clients needing appointments outside the listed hours of operation will be accommodated.

For additional information, call 501-374-0622 or e-mail [thebenefitbank@argentacdc.org](mailto:thebenefitbank@argentacdc.org).

Organizations interested in finding out how to support this effort or host a site should go to [www.thebenefitbank.com](http://www.thebenefitbank.com). Offices can be located in any public place where a computer and Internet access are available.

The Benefit Bank of Arkansas also has sites in Hempstead, Izard, Mississippi, Montgomery, Phillips, Pulaski and Washington counties.

## Credit Card Solicitations Limited on Tennessee Campuses

Acquiring credit cards may be a lot less tempting to college students in Tennessee since a new law went into effect July 1, 2008. The law limits the amount of soliciting companies can do to get students to open credit card accounts.

The new law states that:

- When institutions of the University of Tennessee or the state board of regents systems collect personal information from students for campus directories, they must include a section where students can indicate they do not want to receive credit card solicitations.
- Credit card issuers may not recruit potential customers on campus, at school

facilities or through student organizations. An amendment to the law allows them to recruit on days when athletic events occur, as long as it is in accordance with university policies.

- Recruiters may not offer promotional incentives to students on campus or at school facilities to persuade them to apply for a credit card.
- Any funds the University of Tennessee or state board of regents systems receives from the distribution and use of credit cards by students and how the funds were spent must be reported annually to the select oversight committee on education.

The law responds to concerns about students acquiring credit card debt before graduating from college. By the time college students reach their senior year, 56 percent of them own four or more credit cards, with an average balance of \$2,864, according to Nellie Mae, a Sallie Mae student loan company.

# Where Is A Closer Look?

We asked for your opinion in a survey earlier this year and, as a result, we're making a change to *Bridges*.

Starting with this issue of the newsletter, we will no longer publish *A Closer Look*. This supplement took topics from previous and current issues of *Bridges* and examined them from the perspective of a particular area or community. Most of you responding to the survey said you would prefer reading about these topics in the newsletter.

With that in mind, and realizing that many of our regular features in *Bridges* do present local perspectives on community development topics, we have decided that *A Closer Look* has run its course.

Thanks for your opinion!



## CALENDAR

### OCTOBER

**16**

#### **Fed Focus: Cornerstone Renter Equity Bus Tour—Louisville, Ky.**

Sponsor: Federal Reserve Bank of St. Louis  
502-568-9216

[www.stlouisfed.org/community](http://www.stlouisfed.org/community)

**22-23**

#### **Kentucky Affordable Housing Conference—Lexington, Ky.**

Theme: "Spirit of Unity: Embracing Partnerships"

Sponsor: Kentucky Housing Corp.  
502-564-7630

[www.kyhousing.org](http://www.kyhousing.org)

**28**

#### **What Now? Baby Boomers and Communities Face New Realities—Memphis, Tenn.**

Sponsor: Federal Reserve Bank of St. Louis  
901-579-4103

[www.stlouisfed.org/community](http://www.stlouisfed.org/community)

**29**

#### **CRA Interagency Training Workshop—Little Rock, Ark.**

Sponsor: Federal Reserve Bank of St. Louis  
501-324-8296

[www.stlouisfed.org/community](http://www.stlouisfed.org/community)

**30**

#### **Arkansas Community Development Society Conference—Conway, Ark.**

Theme: "21st Century Communities"

Sponsor: Arkansas Community Development Society

501-324-8240

### NOVEMBER

**6-7**

#### **Entrepreneurship: Where Practice and Theory Meet—St. Louis**

Sponsors: McQuinn Center for Entrepreneurial Leadership, University of Missouri; ExCEED, University of Missouri Extension; Rural Policy Research Institute; and the Federal Reserve Bank of St. Louis.

**8**

#### **Multicultural Housing Fair—Memphis, Tenn.**

Sponsors: Federal Reserve Bank of St. Louis, United Housing, Community Development Council of Greater Memphis and the Hispanic Business Alliance  
901-272-1122

**11-12**

#### **NCDA Region IV Annual Conference—Murfreesboro, Tenn.**

Sponsor: National Community Development Association  
615-890-4660

**13-14**

#### **Building the Capacity to Serve—Paducah, Ky.**

Sponsor: Federal Reserve Bank of St. Louis  
502-568-9216

[www.stlouisfed.org/community](http://www.stlouisfed.org/community)

**20-21**

#### **Southwest Ohio River Valley Region 2008 Regional Economic Summit—Evansville, Ind.**

Theme: "Strategies for Personal, Business and Community Prosperity"

Sponsors: Old National Bank and Regency Properties

[www.regionaleconomicssummit.com](http://www.regionaleconomicssummit.com)

### DECEMBER

**9**

#### **Community Development Speaker Series—Little Rock, Ark.**

Sponsor: Federal Reserve Bank of St. Louis  
501-324-8296

[www.stlouisfed.org/community](http://www.stlouisfed.org/community)

## BRIDGES

*Bridges* is a publication of the Community Development Office of the Federal Reserve Bank of St. Louis. It is intended to inform bankers, community development organizations, representatives of state and local government agencies and others in the Eighth District about current issues and initiatives in community and economic development. The Eighth District includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

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If you have an interesting community development program or idea for an article, we would like to hear from you. Please contact the editor.

Free subscriptions and additional copies are available by calling 314-444-8761 or by e-mail to [communitydevelopment@stls.frb.org](mailto:communitydevelopment@stls.frb.org).

# Exploring Innovation



A Conference on Community Development

Save the Date! • April 22-24, 2009

Chase Park Plaza • St. Louis, Mo.

Presented by the Federal Reserve Bank of St. Louis  
Community Development Office

The theme of the 2009 Exploring Innovation conference is “**Innovation in Changing Times.**” Community development is facing unique challenges caused by changing economic conditions. This conference will focus on resiliency, sustainability and innovative programs that can improve your organization’s performance and have a positive impact on your community.

Registration will begin in January 2009. Watch your mail and our web site for updates. [www.exploringinnovation.org](http://www.exploringinnovation.org)

*Innovation: Anyone can do it!*



Post Office Box 442  
St. Louis, MO 63166-0442

LOCAL BUSINESS CYCLES  
AND CRIME RATES

# SAVE THE DATE

A new report from the Federal Reserve Bank of St. Louis looks at local business cycles in 30 major cities and how they influence crime rates. The report, written by Fed economist Thomas A. Garrett, includes data for four cities in the Bank’s district: St. Louis, Little Rock, Louisville and Memphis.

Garrett will give presentations on the report on the following dates:

OCT. 29, 2008	NOV. 20, 2008	DEC. 3, 2008	DEC. 9, 2008
ST. LOUIS	LITTLE ROCK	LOUISVILLE	MEMPHIS

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