LINKING LENDERS AND COMMUNITIES

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Coming Together To Preserve Affordable Housing

By Ross Clarke

According to data from the 2010 American Community Survey, more than half of all rental units in the St. Louis region are occupied by people who pay more than 30 percent of their income toward rent. Many are working families whose wages don't stretch far enough beyond rent payments to allow for savings, or to purchase health insurance or transportation. A significant number of these households are considered to be extremely low-income, paying more than 50 percent of their earnings toward housing costs. Recent trends also indicate heightened demand in the rental market and, in some areas, increases in rent prices. There is a clear need for affordable rental housing in the region today.

The Low Income Housing Tax Credit (LIHTC) is a program designed to meet this need, providing a dollar-for-dollar credit against tax liability to encourage the private development of affordable housing. The program has helped finance more than 52,000 affordable units in Missouri since it began, and has brought considerable economic activity and job opportunities to the state and the region. Today, however, many of these affordable units face uncertain futures.

The LIHTC program requires an original compliance period of 15 years, after which investors in properties are free to exit partnerships. Those property owners who wish to continue offering rents at affordable rates face tough challenges as properties approach Year 15, including:

- restructuring ownership when limited partners exit,
- finding capital for repairs and rehabilitation,
- refinancing and restructuring debt,

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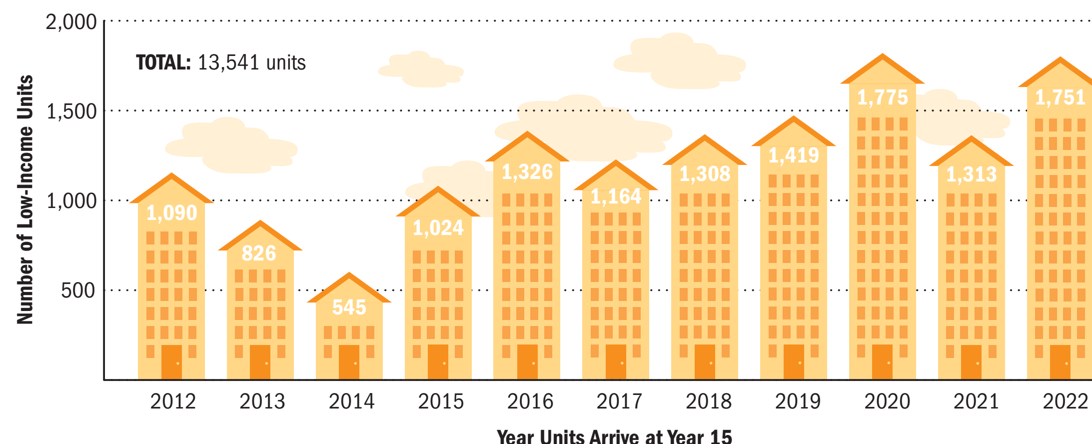
FIGURE 1

Number of Low-Income Units Approaching Year 15 in the St. Louis MSA



SOURCE: LIHTC Database, United States Department of Housing and Urban Development. Retrieved from http://lihtc.huduser.org/.

LIHTC BASICS

- Introduced as part of the Tax Reform Act of 1986, LIHTC has helped finance more than 2 million privately developed affordable housing units.
- Developers of LIHTC properties are awarded federal credits, distributed by states in accordance with the rules laid out in their Qualified Allocation Plan. Developers then sell credits to investors to receive capital up front for development costs.
- There are two types of LIHTC credit: A competitive 9 percent credit that awards credits equal to 70 percent of qualified construction costs; and a noncompetitive 4 percent credit for projects financed with tax-exempt bonds and various other gap subsidies that provides credits equal to 30 percent of qualified costs.
- A minimum of 20 percent of all units must be rented by tenants with incomes at or below 50 percent of the area median income (AMI). Alternatively, owners can opt to rent at least 40 percent of units to tenants with incomes at or below 60 percent of the AMI. In many cases, 100 percent of available rental units are affordable, especially in properties operated by nonprofit organizations.

YEAR 15

- LIHTC requires properties to comply with restrictions for 15 years.
- Legislation passed in 1989 introduced a further 15-year required extended-use period.
- Limited partners (investors) are not bound by extended-use restrictions and are free to exit in Year 15.
- In some cases, general partners (owners) exit; but to do so, they must allow the state housing finance agency to attempt to find a qualified buyer through their qualified contract process.
- If a qualified buyer cannot be found, general partners are then free to sell to any willing buyer.
- Certain nonprofits are given the right of first refusal to purchase properties.

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- ongoing issues with physical and asset management of properties,
- high expenses and low levels of revenue and cash flow, especially for smaller properties, and
- a general lack of preparedness for Year 15.

Another significant challenge for LIHTC partnerships is competition from newer affordable housing developments that open in close proximity to existing properties. Tenants with mobile Section 8 vouchers may leave older units and move to these newer accommodations, which can impact the financial viability of older LIHTC developments.

If these issues cannot be resolved, property owners may be left with little option but to look for a way out. Though LIHTC requires properties to continue operating at affordable rates for a further 15 years, owners can request that the state housing finance agency search for a new buyer through their qualified contract process at any time after the 14th year of the original compliance period. If one cannot be found, owners are released from all restrictions and are free to sell properties to any willing buyers, who are only bound to keep rents affordable for a further three years. Most properties do remain affordable after Year 15, especially in weaker housing markets, such as many parts of the Midwest. Nevertheless, the Year 15 process is lengthy and challenging, and requires a great deal of preparation.

Between 2012 and 2022, more than 13,000 properties in the St. Louis region will arrive at Year 15. (See Figure 1 on page 1.) Recognizing the challenges at hand, the Community Development department of the Federal Reserve Bank of St. Louis convened a meeting of representatives of state and city agencies, and local organizations with extensive experience in the LIHTC field. The goals were to clarify the issues related to Year 15 in the region; allow those involved to share successful strategies to negotiate this process; generate ideas for new, creative strategies; and plan next steps, both short- and long-term. Some of the most pressing issues were found to be:

- the reluctance of banks to refinance debt on properties;
- the capacity and stability of some nonprofit property owners;
- county-by-county variability regarding property assessment and the resulting property taxes imposed if properties are valued at market rate;
- declining external neighborhood conditions;
- a need for a city-wide plan for the spatial development of LIHTC properties; and
- a need for improved communication at state, city and individual property levels.

Several attendees remarked that this was the first time all parties had gathered to address these issues, and the willingness to engage in constructive discussion about the challenges and possible moves toward action was evident. Perhaps most encouraging was the desire of many of the participants to form a LIHTC working group to begin to address these challenges collaboratively; the group held its first meeting in September.

Similar working groups have had considerable success in other cities. In Portland, Ore., a group was formed comprised of staff from state and city housing departments, local and national nonprofits, and other LIHTC property stakeholders. The group was tasked with assessing the risk of loss of affordable units approaching Year 15 and developing recommendations to avoid this loss. The results of the group's meetings impacted the city of Portland's Preservation Agenda and the state's Qualified Allocation Plan.

Another successful LIHTC working group is led by Novogradac & Company, a San Francisco-based accounting and consulting firm with a wealth of LIHTC experience. They hold monthly conference calls and meet annually to discuss best practices for the LIHTC industry and

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Why Did Young Households Lose so Much Wealth During the Crash?

The Role of Homeownership

By William Emmons and Bryan Noeth

Recently released survey data related to household financial conditions reveal large wealth losses in virtually every segment of the U.S. population between 2007 and 2010, the most recent years in which the Federal Reserve conducted its triennial Survey of Consumer Finances.[1] Since the deepest economic recession in many decades occurred between December 2007 and June 2009, the 2007 and 2010 surveys effectively represent "before and after" snapshots of U.S. households' balance sheets for a cross-section of American families.

As detailed in our recent article,[2] the Survey of Consumer Finances reported that the wealth of the median U.S. household in 2010 was 39 percent lower than the median household's wealth in 2007, adjusted for inflation. The family headed by someone under 40 (henceforth, young households) in the middle of the 2010 wealth distribution likewise had much less wealth than the corresponding median young family in 2007. (See Figure 1.)

The decline in the wealth of a young household measured at the median of the distribution in 2007 and 2010, respectively, was 38 percent. The decline was 20 percent among young households that were members of a historically disadvantaged minority, which we define to be African-Americans and Hispanics, who may be of any race. The median wealth of young households that were not members of a historically disadvantaged minority (including non-Hispanic whites, Asians and other non-historically disadvantaged minorities) was 42 percent lower in 2010 than the median wealth in 2007.

The very large loss of wealth among many young households is notable for at least two reasons. First, many young households are financially fragile. A serious financial setback early in life can have lasting effects on family members, including young children. According to the surveys, the homeownership rate (defined to include primary residences, vacation homes and timeshares) among young families declined about four percentage points between 2007 and 2010 (from 50 to 46 percent). This almost certainly was due, in large part, to foreclosures and other distressed exits from homeownership. The homeownership rate declined by only two percentage points among families headed by someone at least 40 years old but less than 62 (from 77 to

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FIGURE 1
Median Net Worth of Families Headed by Someone Under 40

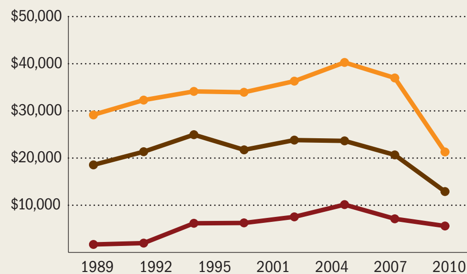


FIGURE 2
Homeownership Rate of Families Headed by Someone Under 40

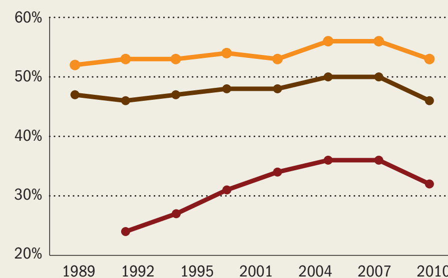
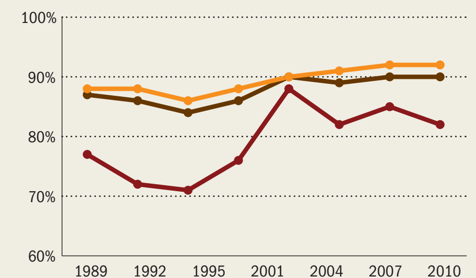


FIGURE 3
Share of Homeowners with Mortgages Among Families Headed by Someone Under 40



SOURCE: Federal Reserve Survey of Consumer Finance

KEY

- Families headed by someone who is under 40 but is NOT a member of a historically disadvantaged minority group (African-American or Hispanic origin)
- All families headed by someone under 40
- Families headed by someone who is under 40 and is ALSO a member of a historically disadvantaged minority group (African-American or Hispanic origin)

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address policy and technical issues related to the program. The group regularly provides comments to state and federal government agencies on issues that impact the LIHTC field, including recent comments regarding the implementation of the Volcker rule of the Dodd-Frank Act.

Communication and shared knowledge are crucial in addressing the many issues that arise in the complicated, messy LIHTC field. The clearer the issues become, the better the strategies that can be created to resolve them. Partnering and sharing resources to overcome common obstacles will only make the field stronger and ensure that the region's needs for affordable housing preservation are addressed. By developing its own working group, the St. Louis region has taken a step closer to overcoming the challenges it faces. For more information about the working group, please contact Stephen Acree (Regional Housing and Community Development Alliance) at stephen@rhcda.com.

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Young Households

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75 percent), while the homeownership rate among families headed by someone 62 or older actually increased by one percentage point (from 83 to 84 percent). Thus, the housing and mortgage crisis appeared to hit young families especially hard and may have long-lasting impacts on their financial positions or in other dimensions.

The second noteworthy aspect of the large wealth declines among young households is that families who were not members of a historically disadvantaged minority experienced much larger wealth losses—in fact, twice as large when comparing their respective medians—than did African-Americans and Hispanics. This is unusual in the survey data; in virtually every other age and education group that we examined, historically disadvantaged minority families suffered larger percentage wealth losses at the median. What was different about young families?

It appears the source of this unusual pattern is related to homeownership and mortgage borrowing. In a nutshell, young families from historically disadvantaged minorities had lower homeownership rates and less mortgage debt immediately before the downturn in 2007. As the economy and housing markets deteriorated, families whose balance sheets were relatively more concentrated in housing and those who had borrowed more to finance homeownership—both more typical of non-minority families—suffered greater wealth losses.[3]

Figure 2 shows homeownership rates for families under 40. In 2007, the overall young-household homeownership rate was 50 percent. The rate for historically disadvantaged minority families was 36 percent, while the rate for non-minority families was 56 percent. In 2010, the homeownership rate among all young families was 46 percent, with minority and non-minority homeownership rates falling to 32 and 53 percent, respectively.

Figure 3 shows that the way homeownership was financed played an amplifying role in the loss of wealth for non-minority families. In 2007, 90 percent of all young homeowners had mortgage debt outstanding. Among historically disadvantaged minority families, only 85 percent had mortgage debt, while 92 percent of non-minority families had mortgage debt. Because the value of mortgage debt does not decline when house prices do, the financial effect of mortgage debt is to magnify the percentage loss of wealth suffered by the homeowner. This phenomenon is called "leverage." Just as a physical lever transforms a given amount of force applied at one end into a greater force at the other end, financial leverage transforms a given percentage house-price decline into a larger percentage loss of homeowners' equity.

In sum, young non-minority households typically suffered larger percentage declines in wealth between 2007 and 2010 than did young historically disadvantaged minority families. This was due to the relatively greater concentration of non-minority households' balance sheets in housing as well as greater financial leverage in the form of mortgage debt.
A higher homeownership rate and greater use of mortgage debt among young non-minority families therefore turned out to have negative financial consequences during the severe recession and housing-market decline of recent years.

William Emmons is chief economist for the Household Financial Stability initiative and assistant vice president of Executive Special Projects at the Federal Reserve Bank of St. Louis. Bryan Noeth is a policy analyst for the Household Financial Stability initiative at the Federal Reserve Bank of St. Louis.

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2. Emmons, William; and Noeth, Bryan. "Household Financial Stability: Who Suffered the Most from the Crisis? Federal Reserve Bank of St. Louis *Regional Economist*, 2012, Vol. 20, pp. 11-17.
3. Emmons, William; and Noeth, Bryan. "Why Did Young Families Lose So Much Wealth During the Crisis? The Role of Homeownership," Federal Reserve Bank of St. Louis *Review*, 2013, Vol. 95, No. 1, forthcoming.

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Taking Financial Education to the Next Level

By Mitchell Kent and I-Hsing Sun

In 2006, New York City Mayor Michael R. Bloomberg charged the Department of Consumer Affairs (DCA) with bringing financial empowerment services to those with low incomes as part of his broad antipoverty strategy. DCA formed the country's first Office of Financial Empowerment to take on the challenge.

It quickly became clear that, while some existing financial education services were being done well, the field did not possess the level of professionalized delivery, outcome-driven metrics and rigorous evaluation required for public programs. And one-on-one counseling, the gold standard of the field, was largely unavailable. Even the best program providers lamented this lack of standards and accordingly suffered from undependable resources to support their work.

The U.S. Government Accountability Office similarly concluded in a 2011 report that no consistent approach, delivery mechanism or technology stood out as a best practice in financial education.[1] Individuals and families in need of such services had little guidance when seeking them, which increased their vulnerability to predatory, costly and often harmful actors. Most established models of financial education focused on long-term wealth creation, whereas families with low incomes typically wrestled with a number of immediate crises and underlying instability concerns that must be addressed first. Increasingly complex financial instruments for banking, borrowing and saving made safe and affordable choices, when available, difficult to identify and access.

DCA's Office of Financial Empowerment (OFE), therefore, began developing and delivering rigorous and professional standards for counselor training, service delivery quality control, and impact measurement and evaluation. This article examines OFE's delivery model, the collateral impacts we experienced as we integrated these programs into other services, and the repercussions for national replication.

Professional Financial Counseling in New York City

Mindful of vast need and standards of public accountability, OFE developed and deployed best practices in content, delivery and evaluation to achieve professional quality in this field, employing a three-pronged approach:

1. OFE standardized an outcome-driven service-delivery model, implemented through the city's now publicly funded Financial Empowerment Centers, which offer free, professional, one-on-one financial counseling services. The cornerstone of this approach is a comprehensive financial health assessment completed with all clients at intake and a subsequent 30-milestone and outcome evaluation tool. The Centers strive to understand the full financial picture of their clients regardless of the motivation for the visit. Subsequent one-on-one counseling sessions include:

- Budget counseling
- Credit building and repair of credit reports and scores
- Debt management strategies
- Connection to safe and affordable banking products negotiated by OFE
- Guidance on appropriate and viable savings and asset-building opportunities
- Strategic referrals to legal services, free or low-cost tax preparation, benefits counseling and other social services, as appropriate
- Longer-term financial coaching geared toward asset-building goals

2. To ensure the quality and consistency of services offered to the public at the city's Financial Empowerment Centers, OFE developed a formal training program with the City University of New York (CUNY) in 2009. This course is now available as a full-semester, three-credit undergraduate course offered by CUNY's School of Professional Studies through a Financial Studies Certificate Program. All Financial Empowerment Center counselors must take and pass

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Financial Education

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the course. It is also open to service providers across all fields and all CUNY students. Ensuring quality service providers is essential to make the case for public funding of the Financial Empowerment Centers and, most important, to enable the city and its partners to steer consumers into the hands of very capable financial educators.

OFE also has partnered with the Columbia University School of Social Work (CUSSW) to integrate financial counseling into the field of social work through the graduate-level course, *Personal Financial Management and Financial Counseling Skills*. This course is now a prerequisite to a field placement in financial empowerment and counseling.

3. Finally, OFE standardized processes and protocols across its Financial Empowerment Centers to ensure consistently high quality, regardless of the provider, and to meet the impact measurement demands of its initially private and now public funders. OFE customized an integrated database system used as both a case management tool to track client progress against four distinct service plans (banking, credit, debt and savings) and for ongoing performance evaluation.

The "Supervitamin" Effect

With the advent and track record of quality metrics, New York's financial counseling field experienced a demand for financial counseling that extended beyond counseling clients to include program providers in other antipoverty efforts. Because financial instability is a common underlying circumstance, other program clients were finding it difficult to make improvements. Professional financial counseling, integrated into the delivery stream of other programs, began producing strong evidence of a "supervitamin" effect, helping those programs work faster and more effectively. This exciting development is studied in detail in OFE's multi-report series, "Municipal Financial Empowerment: A Supervitamin for Public Programs." The first supervitamin report, released in December 2011, focused on Strategy #1: Integrating Professional Financial Counseling (www.nyc.gov/html/dca/downloads/pdf/SupervitaminReport.pdf). The second supervitamin report, Strategy #2: Professionalizing the Field of Financial Education and Counseling (www.nyc.gov/html/dca/downloads/pdf/SupervitaminReport2.pdf), documents the exciting approaches described in this article. The third report focused on Strategy #3: Integrating Safe and Affordable Bank Accounts (www.nyc.gov/html/dca/downloads/pdf/SupervitaminReport3.pdf), and future reports will focus on integrating targeted consumer financial protections, and integrating asset-building and income-boosting strategies.

Replicating Success

Other city governments in the national Cities for Financial Empowerment Coalition, founded and co-chaired by New York City and San Francisco, implemented citywide networks of financial education providers, like San Francisco's Smart Money Network and Seattle's Financial Education Providers Network. Emphasizing the kind of quality control required by public accountability, other opportunities for integrated delivery arose, and the "supervitamin" approach began taking hold across the country. With the promise of quality, scale and public systems change came further excitement.

Through an initiative of the Cities for Financial Empowerment Fund (CFE Fund), a project of Living Cities, other cities soon will replicate the rigorous, standardized and integrated version of financial education and one-on-one counseling pioneered by New York City's Financial Empowerment Centers. As a measure of demand and interest, more than 48 cities, representing 30 million residents in 29 states and one U.S. Commonwealth, applied to offer—and publicly integrate—the professional financial counseling model with the CFE Fund.

Finally, steps in the direction of greater federal involvement are emerging. The federal Financial Literacy and Education Commission, which convenes regularly at the U.S. Department of the Treasury, revised its National Strategy for Financial Capability in 2011, including a set of core competencies that should become part of general public financial knowledge. And the new Consumer Financial Protection Bureau has a dedicated Division of Consumer Education and Engagement, with separate Offices of Financial Education and Financial Empowerment.

The field of financial counseling and education is clearly ripe for the public investment attendant to professional delivery. And the public need is arguably greater than it has ever been.

THREE YEARS OF FINANCIAL EMPOWERMENT CENTER ACHIEVEMENTS

June 30, 2012

Total clients served:
17,160

Total counseling sessions:
32,042

Total amount of savings:
$870,296.72

Total amount of debt reduced:
$7,048,703.93

Mitchell Kent is director of legislative policy and special counsel at the New York City Department of Consumer Affairs (DCA). I-Hsing Sun is assistant commissioner for financial empowerment programs at DCA.

ENDNOTE

1 United States Government Accountability Office: Report to Congressional Committees; Financial Literacy: A Federal Certification Process for Providers Would Pose Challenges. June 2011. Executive Summary.

Local and Regional Economic Development in Rural West Tennessee

By Andrew A. Pack

Between Memphis and Nashville along the "Music Highway" (Interstate 40) rests the historic city of Jackson, Tenn. Like many larger towns between two major cities, Jackson serves as a regional hub for many of the smaller surrounding communities. The city is also the headquarters of the Southwest Tennessee Development District (SWTDD). Joe Barker is the director of the SWTDD and has been working on the issues facing rural areas throughout his career as a community and economic developer.

Rural America is facing many challenges in the changing economy, and many of those challenges are present in West Tennessee. Creating regional collaboration to work on issues such as population declines, low educational attainment and the shrinking of manufacturing jobs is no easy task. Barker has played various roles throughout his career as a community and economic developer—mayor of a small town, county mayor, state-level community and economic developer, and regional economic developer. Each role has its own challenges and opportunities, but each has also given Barker a unique perspective. I sat down with him to discuss how he views his role in economic development.

Economic Development as an Elected Official

As mayor of the small community of Savannah, Tenn., Barker confesses that while elected officials may have a lot of enthusiasm for their communities, this passion isn't always enough when trying to increase an area's economic opportunities. Not every person or potential company shares that same passion. Infrastructure needs, proximity to other markets, available workforce and cost of property are just some of the factors a prospective company may be focused on. Elected officials must work beyond their sense of community pride.

Barker believes that educating mayors in many aspects of economic development is critical, but the mayor should not be the sole leader in this area. Resources in small towns may be limited, but it is important to have a professional economic developer who is focused on the long-term impact of community and economic development. Mayors are an essential part of the team, but as elected officials they work in four-year cycles. Barker says that programs such as the University of Tennessee's County Technical Assistance Service (CTAS) and Municipal Technical Assistance Service (MTAS), along with the state's economic development basic course (through the International Economic Development Council) were very helpful in increasing his and other mayors' knowledge of economic development.

Community Assets Often Get Overlooked

Another issue that Barker said took a bit of time to realize is how to really identify and focus on a community's assets. This helped him to shift some of the economic development focus from manufacturing recruitment in Savannah and Hardin County to a plan that was a better fit with their local assets (e.g., tourism). According to Barker, local elected officials often do not fully realize their community's assets and opportunities because many communities also overlook them.

In the report, "Small Towns, Big Ideas," the University of North Carolina found that "small towns with the most dramatic outcomes tend to be proactive and future-oriented; they embrace change and assume risk." Barker agrees with this statement because he believes it is imperative

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CDAC Member Spotlight

JOE BARKER is executive director of the Southwest Tennessee Development District (SWTDD), a regional planning and economic development organization that serves eight Tennessee counties. Barker has also served as a mayor and the assistant commissioner of the Tennessee Department of Economic and Community Development. He represented the governor on the Appalachian Regional Commission, Delta Regional Authority and Tennessee-Tombigbee Waterway Authority. Barker is also a member of the Community Development Advisory Council (CDAC) for the Federal Reserve Bank of St. Louis.

CDAC members are experts in community and economic development and financial education. They complement the information developed through outreach by the District's Community Development staff and suggest ways that the Bank might support local efforts. A list of current members is available at www.stlouisfed.org/community_development.

Economic Development

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that small towns think about creative economic development opportunities that may be different than past strategies, which may require some degree of risk. Once Barker fully realized how big of an asset tourism was to Savannah's economy, he did something different than many people would do. He took a risk and called the National Association of Intercollegiate Athletics (NAIA) to pitch bringing their championship football game to the city.

Savannah was successful in hosting the NAIA football championship for 12 years, and the city was mentioned on the front cover of *Sports Illustrated*. Hosting this game not only had an immediate impact on Savannah, but it was also a perfect fit with the small town's other tourism assets, including the Tennessee River, Lake Pickwick and the nearby historic battlefield of Shiloh. Barker says, "It's much more than a football game and national TV exposure. It's about economic-development tourism and the experiences players and others have at the game. Outsiders who have a positive experience in Savannah may one day be in a position to bring jobs to the city or the surrounding region. Their positive experiences may lead to future economic opportunities." Elected officials can be helpful when they are integrated appropriately into the economic development process and work with professionals to help develop the community's assets.

Regional Economic Development

Economic development challenges at the regional level may often be different than those in individual communities, such as getting local and elected officials from various communities to cooperate. Each community has its own characteristics and local pride that may create a difficult climate for regional collaboration. Barker says regional economic development can be very challenging, but collaboration is especially critical in rural communities because they are stronger working together as a whole. In most cases, more economic opportunities for rural areas exist at a regional level than at the local level.

The SWTDD works on regional collaboration by promoting education and workforce development, technology and online jobs that fit into rural areas, capacity building to build leadership throughout the region and working to promote entrepreneurship. Barker says that regional development works best when each community is willing to invest financially in the collaborative effort. There are a lot of entities recruiting manufacturing in West Tennessee, so Barker and the SWTDD have developed other types of economic development programs, such as digital factories that prepare workers for online jobs, college career coaches for high school students and entrepreneurship programs. They are currently working to create a business incubator.

Barker acknowledged that there is no template for rural and regional economic development because every area is different. But there are good examples of economic opportunities created in rural America (e.g., North Carolina and other areas focused on by the Appalachian Regional Commission). Barker believes there are three advantages that rural communities share. They have: 1) a sense of place, 2) people with a strong work ethic, and 3) strong social ties that could help to create more jobs in the future. To create more opportunities, Barker believes that rural communities need to better understand their assets and liabilities, direct resources to these strengths, and take advantage of regional economic development opportunities.

Andrew A. Pack is a community development specialist at the Little Rock Branch of the Federal Reserve Bank of St. Louis.

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TOP 10 THINGS ELECTED OFFICIALS SHOULD KNOW ABOUT ECONOMIC DEVELOPMENT

1. Your local economic strengths and weaknesses.
2. Your community's place in the broader regional economy.
3. Your community's economic development vision and goals.
4. Your community's strategy to attain its goals.
5. Connections between economic development and other city policies.
6. Your regulatory environment.
7. Your local economic development stakeholders and partners.
8. The needs of your local business community.
9. Your community's economic development message.
10. Your economic development staff.

SOURCE

McFarland, C. and Seeger, K.: *The Role of Local Elected Officials In Economic Development: 10 Things You Should Know*, International Economic Development Council/National League of Cities/Center for Research & Innovation, http://iedconline.org/Downloads/NLC_IEDC_EconDevelop10things.pdf

A Matter of Degrees

Increasing College Attainment—Workforce Development Strategy #1

By Kathy Moore Cowan

Early in 2012, in an effort to develop a deeper understanding of the complex factors creating long-term unemployment conditions and identify promising workforce development solutions, the Federal Reserve held 29 roundtables across the country, including four in the Eighth District. One common theme heard during these meetings was that the American workforce lacks the skills needed by present and future employers.

It is estimated that 68 percent of all jobs created between 2010 and 2018 will require a college degree. However, only 40 percent of America's current adult population (age 25 and older) are college graduates. America ranks 10th in the world in college attainment, trailing countries such as Canada (56 percent), South Korea (56 percent) and Japan (54 percent). The Tennessee Higher Education productivity team predicts that by 2018 more than half of all jobs in Tennessee will require some form of postsecondary credentials. Only 29.9 percent of Tennessee's adult population holds an associate's degree or higher, compared to the national average of 37.2 percent. While there is some debate about whether a four-year college degree is worth the cost, many people believe that the future of American prosperity relies on a better-educated workforce.

It is not surprising, then, that the president has set a goal for the U.S. to reclaim the lead in college graduation rates by 2020. Tennessee's governor aims to double the number of the state's residents with a college degree or certification by 2025. And the Memphis metropolitan area intends to raise the college completion rate by 1 percent (8,002) by September 2014. Here is how the Memphis metropolitan area is working to reach this goal.

Metropolitan Memphis, Tenn.

In 2008, CEOs for Cities introduced extensive research that outlined three vital areas—talent, poverty and the environment—that could have a tremendous economic impact on every city in America. The research showed that educational attainment is the biggest predictor of success for cities and metropolitan areas today. Specifically, it showed that 58 percent of a city's success, as measured by per-capita income, is attributable to the percentage of the adult population with a college degree.

Rankings of 51 metropolitan cities placed Memphis at #48 in college attainment, with only 23.7 percent of the adult population earning a college degree. Recognizing the challenge—and the opportunity—for the metro area, Leadership Memphis launched the Memphis Talent Dividend (MTD), a collaborative of more than 100 stakeholders from the eight-county region who are working together to increase the percentage of college attainment in the area by 1 percent. If this goal is met, CEOs for Cities estimates a $1 billion economic impact for the region.

MTD is focusing on three strategic areas: 1) helping students prepare for and successfully enroll in college; 2) helping students stay in college and complete their studies; and 3) helping workers return to college to earn a degree. The group has organized six specialized collaboratives—youth organization, community, faith, business, media and higher education—that are open to anyone who wants to work toward reaching the goal. Each collaborative has an individual focus and is working to increase five key areas: 1) high school graduation rate, 2) college enrollment rate, 3) college continuation rate, 4) college completion rate, and 5) college graduate retention rate.

David Williams, president/CEO of Leadership Memphis, said, "When you look at the top 51 largest metro areas, Memphis is ranked #1 in poverty and #48 in college attainment. The correlation is obvious. Over 200,000 people in the Memphis metro area started but never finished college. Leadership Memphis and our 100 Memphis Talent Dividend partners know we can make a difference by helping them finish their postsecondary education and improve our workforce at the same time."

That's where Graduate Memphis comes in. Housed in Memphis' Benjamin Hooks Central Library, Graduate Memphis

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FOR MORE INFORMATION

CEOs for Cities
www.ceosforcities.org

Leadership Memphis
www.leadershipmemphis.org

Memphis Talent Dividend
www.memphistalentdividend.com

Graduate Memphis
graduatememphis.org/about

Kresge Foundation
www.kresge.org/programs/education

Lumina Foundation
www.luminafoundation.org

TNAchieves and Memphis/Shelby Achieves
www.tnachieves.org

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.

Fall Results of *Community Outlook Survey* Coming Soon

The fall 2012 edition of the semiannual *Community Outlook Survey* of low- and moderate-income (LMI) communities across the states that comprise the Eighth Federal Reserve District will soon be released on the St. Louis Fed's web site: www.stlouisfed.org/community_development/community-outlook-survey/. The survey informs the St. Louis Fed and its branches in Little Rock, Louisville and Memphis about the current conditions of the District's LMI communities and is shared with policymakers at the Federal Reserve Board of Governors in Washington, D.C. If you don't already participate in the survey but would like your voice to be heard in future rounds, send us an e-mail at communitydevelopment@stls.frb.org.

New 1:1 Fund Will Boost College Savings for Low-Income Mississippi Kids

The 1:1 Fund, launched in November, is an innovative new program that matches low-income students in Mississippi with donors who help them maintain and build college savings accounts. In its first year, 1:1 aims to provide matching funds for nearly 9,000 children in two test markets—Mississippi and San Francisco—with plans to expand nationally and reach as many as 100,000 children by 2015.

Mississippi ranks second to last in the percentage of residents with a four-year college degree (19.5 percent) and 47th in those with two-year degrees (27.9 percent), according to CFED's *2012 Assets & Opportunity Scorecard*. The 1:1 Fund will match donors with nearly 700 children already saving for college through the Mississippi College Savings Account Program. For more information, visit www.1to1fund.org.

New St. Louis Fund Pairs Community Investment with Engagement

A new grassroots charitable fund dedicated to community development in the St. Louis region gives individual donors a say in which organizations to support. The fund—inveSTL—raises money through donations and event proceeds to build a foundation focused on neighborhood development. When the fund reaches specific fundraising goals, it will grant 25 percent to an organization and retain 75 percent to build up the endowment. Donations are accepted in all amounts, and donors who contribute $100 or more in a given funding cycle are able to vote on the organizations that receive funding. To learn more, contact Karl Guenther at guentherk@umsl.edu or www.invest.org.

Save the Date! Resilience and Rebuilding for Low-Income Communities Conference

The Federal Reserve System will host its eighth biennial community development conference on April 11–12, 2013, in Washington, D.C. This event will feature multidisciplinary, action-oriented research to inform strategies and policies that forge vibrant and resilient communities. To learn more, visit www.frbatlanta.org/news/conferences/13resilience_rebuilding.cfm.

Glenda Wilson Retires

Wilson

After 36 years at the Federal Reserve Bank of St. Louis, Glenda Wilson retired on Nov. 30. Wilson, the Bank's assistant vice president of Community Development, was hired at the St. Louis Fed in 1976 as an assistant bank examiner. She worked in various departments throughout the Bank before landing in Community Development in 1990, when the department's focus was on assisting communities with issues related to the Community Reinvestment Act (CRA). Although today's Community Development department still provides CRA information as part of its mission, that mission has expanded to also focus on areas such as community and economic development as well as access to credit—with a goal of helping to improve communities and the lives of their residents.

"Over time, we have evolved into looking more closely at community issues such as affordable housing, and taking more of a holistic approach to community and economic development," Wilson says. Such an approach, which often involves working directly with community organizations and neighborhoods, has made Wilson's winding career path especially rewarding, she says. "We get to work with all of these people and organizations who do such good work and who are trying so hard to make life better for their communities," she says. "It's been really rewarding to play a part in helping to make those efforts successful."

College Attainment

continued from Page 9

is a free college resource center designed to increase postsecondary attainment among adults. Funded by a $1.7 million grant from the Plough Foundation, it is staffed by a coordinator, three staff college advisors, and college advisors on loan to the center by local colleges and universities. Counselors meet one-on-one with prospective students, and telephone counselors are available. Workshops on relevant topics are held monthly, and a web site provides links to resources focused on the needs of adults returning to school. Since its opening in July, Graduate Memphis has reached more than 400 potential students, and 20 participants have enrolled in a local college.

MTD is also attempting to win $1 million for the metropolitan area as part of the National Talent Dividend contest sponsored by CEOs for Cities and the Kresge and Lumina foundations. More than 50 cities have registered for the competition, including three additional cities in the Federal Reserve's Eighth District—St. Louis, Louisville and Little Rock. The prize will be awarded in September 2014 to the metropolitan area with the greatest increase in the number of postsecondary degrees granted per capita over a three-year period. If all registered cities are successful in raising college attainment by 1 percent, CEOs for Cities calculates a $124 billion increase in national earnings per year.

Other programs are helping Memphis reach the college-attainment goal (e.g., Memphis/Shelby Achieves). The area is preparing for its future and by all indications the future is here. It will take the collective work of all communities across the country to create the "talent" that is required to meet the challenging and ever-changing needs of the global economy.

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

RESOURCES

New Scorecard Data on the Strength of State Policies

CFED has released new data on the strength of 12 state policies (http://scorecard.assetsandopportunity.org/2012/policychange.php) that help families create financial security and opportunity. These data capture policy changes that occurred in the 2012 state legislative session, or for which data became available after fall 2011. For more information, visit http://assetsandopportunity.org/scorecard/.

Bank Branches from the FDIC

Visualize the location of bank branches across the nation, overlay them on top of market indicators like income, households, racial composition and more. Learn about each bank's assets and total deposits and see how bank branch locations compare from one part of the country to another. This public dataset is now available on PolicyMap under "Banking" in the "Add Sites" menu (left navigation bar) for free (www.policymap.com/maps).

New Podcast Series on Workforce Development

How might we rethink workforce development to best respond to current and future economies? Experts from industry and academia provide their thoughts on this and other related topics in *Economic Development* podcasts. Recent podcasts focus on jobs and unemployment, and feature speakers from the national conference, Future of Workforce Development: Where Research Meets Practice, co-sponsored by the Federal Reserve Banks of Kansas City and Atlanta.

- ***Metrics for Success: Critical Elements for Workforce Development Programs***
  Elizabeth Weigensberg, University of Chicago, discusses recent research on key components of the most successful workforce development programs and provides recommendations for how existing programs can be more effective.
- ***Collaborative Efforts: Colleges and Nonprofits Partner to Enhance Workers' Skills***
  Maureen Conway, Aspen Institute, discusses the results of the Courses to Employment project, which analyzed how community colleges and nonprofits worked together to help low-income adults succeed in the classroom and labor market.

To view transcripts or play the audio MP3 files, visit www.frbatlanta.org/podcasts/economicdevelopment/

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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CRA Roundtable—St. Louis
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Contact Matt Ashby at Matthew.W.Ashby@stls.frb.org

FEBRUARY

5–7

Research Symposium—Restoring Household Financial Stability After the Great Recession: Why Household Balance Sheets Matter—St. Louis
Sponsors: Federal Reserve Bank of St. Louis, Center for Social Development at Washington University in St. Louis
www.stlouisfed.org/event/46CA

19–20

Mississippi Annual Affordable Housing Conference—Biloxi, Miss.
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www.facebook.com/mshomecorp

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Bank-On Save-Up St. Louis Launch—St. Louis
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www.frbatlanta.org/news/conferences/13resilience_rebuilding.cfm

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In addition to the print version, each issue of *Bridges* offers information that is exclusively online. This content expands on topics in the current or a past issue. For this issue:

- **Underwater Mortgages in the Eighth District**
  By Julia Maués

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https://www.stlouisfed.org/publications/bridges/fall-2012/underwater-mortgages-in-the-eighth-district

Underwater Mortgages in the Eighth District

Julia S. Maues

The nationwide decline in house prices during the financial crisis left many borrowers owing more on their homes than they are worth—a situation commonly described as one in which borrowers are "underwater" on their mortgage or have "negative equity" in their home. In the second quarter of 2012, 22.3 percent of U.S. borrowers were underwater on their mortgages according to CoreLogic, a leading provider of housing and mortgage data. In Nevada alone, where house prices declined by more than 60 percent from their peak, almost 60 percent of homeowners were underwater on their mortgages. Since negative equity impacts a borrower's ability to sell or refinance a home, it can have a significant drag on the pace of the housing recovery in markets across the United States.

In addition to the large share of borrowers already underwater in the U.S., another 4.7 percent had less than 5 percent equity in their homes, which CoreLogic refers to as having "near-negative equity." This means that approximately 13 million people, or 27 percent of all homeowners with a mortgage, are unable to sell their homes without either first putting up cash to pay off the remaining balance on their mortgage and closing costs or negotiating a short sale (in which the lender agrees to allow the borrower to sell the home for less than the original purchase price).

Refinance Options for Underwater Borrowers

In a traditional refinance, especially in today's tighter lending market, mortgage lenders require borrowers to have equity in their home. For this reason, underwater borrowers are not able to conduct a traditional refinance of their mortgages. To help borrowers who are current on their mortgage take advantage of today's record low interest rates, in April 2009 the government launched the Home Affordable Refinance Program (HARP). This program has subsequently undergone various changes, the more notable of which were made in late 2011 and are often referred to as HARP 2.0. They included:

1. extending the program expiration date to December 2013,
2. removing the 125 percent loan-to-value cap,
3. eliminating certain risk-based fees for borrowers who refinance into shorter-term mortgages and lowering fees for other borrowers, and
4. relaxing certain representation and warranty requirements, which reduces the risk of pre-existing underwriting deficiencies for the originator of the new HARP loan.

These changes to the HARP program appear to have boosted utilization of the program. In the first half of 2012, HARP 2.0 refinances accounted for 33 percent of all refinances, the highest percentage reported since the inception of HARP. In total, 1.4 million borrowers have refinanced under HARP through June 2012. There are limitations to the program, however. Specifically, only mortgages that are guaranteed by Fannie Mae or Freddie Mac are eligible to refinance through the HARP program. In addition, they must have been sold to

one of the government-sponsored enterprises (GSEs) prior to June 1, 2009, and they cannot have been previously refinanced under the program.

Eighth District States

In the Eighth District, the impact of negative equity has not been as prevalent as it has been in other parts of the U.S. In general, negative equity is more prevalent in states where the drop in house prices was larger—such as in California and Florida, where house prices dropped around 50 percent from the peak. As shown in Table 1, the decline in house prices from their peak is lower in six of the seven states in the Federal Reserve's Eighth District than in the nation as a whole. Only in Illinois did house prices fall more than in the nation overall—30.3 percent versus 23 percent.

Table 1

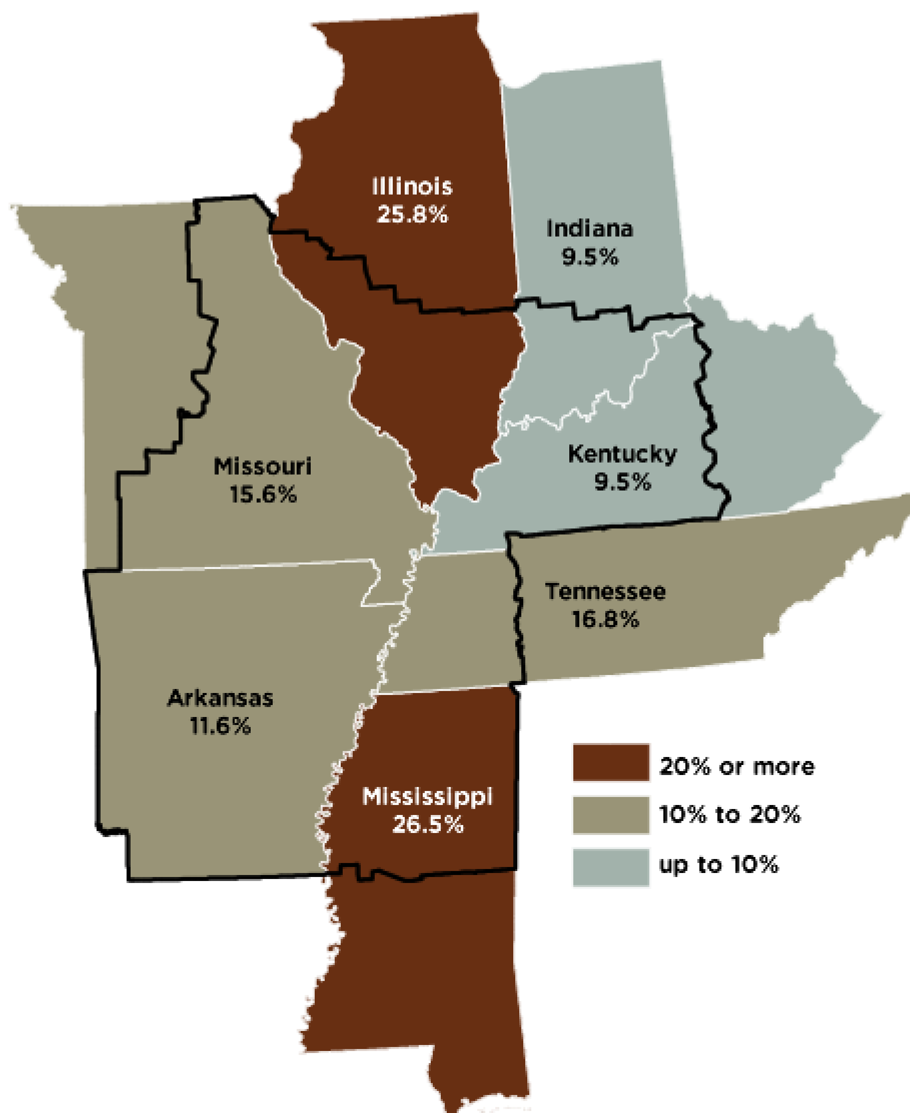
Decline in House Prices from Peak in the Eighth District

United States	23%
Arkansas	7.4%
Illinois	30.3%
Indiana	8.6%
Kentucky	4.2%
Mississippi	13.8%
Missouri	17.4%
Tennessee	14.9%

Source: Federal Housing Finance Agency Seasonally Adjusted Expanded HPI – Q2

Figure 1

Underwater Mortgages in the Eighth District



Source: CoreLogic, Q2 2012.

Not surprisingly, Illinois is also the Eighth District state with the highest share of underwater mortgages, at 25.8 percent. (See Figure 1.) Mississippi's rate is also higher than the nation's, at 26.5 percent, followed by Tennessee (16.8 percent), Missouri (15.6 percent) and Arkansas (11.6 percent). The lowest negative-equity shares in the District are those of Indiana and Kentucky (both at 9.5 percent).

As in the nation as a whole, states in the Eighth District also experienced the surge in HARP modifications in the first half of 2012. Table 2 shows the share of HARP refinances for two periods—since the program's inception in April 2009 and in the first half of 2012.

Table 2

HARP Refinance Activity by State (Eighth District) as of June 30, 2012

State	% HARP Refis of Total Refis	
	Year-to-Date June 2012	Inception-to-Date
AR	14.4%	8.1%
IL	23.7%	14.9%
IN	13.2%	9.0%
KY	6.8%	5.2%
MO	14.0%	8.8%
MS	11.0%	8.3%
TN	14.2%	8.0%
US	19.5%	11.8%

Source: Federal Housing Finance Agency

Conclusion

Despite some recent good news on house price increases in some U.S. markets, negative equity remains a significant problem. Although states in the Eighth District have generally not experienced the housing market challenges seen in other areas of the country, a significant number of borrowers are underwater, often unable to sell or refinance their homes, and therefore at a higher risk of default. Although modifications to the HARP program appear to have increased participation in this program, only government-backed loans originated in a specific timeframe qualify. Even for those who qualify, the extent to which the program ultimately helps borrowers regain and maintain their financial footing is yet to be seen.

For information about the current state of the housing market in the U.S. and the states included in the Federal Reserve's Eighth District, please visit www.stlouisfed.org/community_development/HMC/.