

The Recap: Creative Approaches to Current Community and Economic Development Issues

Research and analysis highlighted in this issue feature work from the Federal Reserve System, academic institutions, think tanks, and regulators. These reports address a wide range of current topics in community and economic development, including housing, financial stability, small business, and disaster recovery, and offer policy implications and areas for further research along with their analysis and findings. The Recap is not intended to be a comprehensive or exhaustive literature review but rather a point of departure for further reading.

Housing

Financial Literacy and Subprime Mortgage Delinquency: Evidence from a Survey Matched to Administrative Data

Kristopher Gerardi, Lorenz Goette, and Stephan Meier; Federal Reserve Bank of Atlanta, Working Paper 2010-10, April 2010, http://www.frbatlanta.org/pubs/wp/working_paper_2010-10.cfm.

This paper investigates whether a particular aspect of borrowers' financial literacy—their numerical ability—may have played a role in the recent high rates of mortgage default and foreclosure. The results of the authors' survey of subprime mortgage borrowers who took out mortgages in 2006 or 2007 suggest that limited numerical ability played a nontrivial role in the subprime mortgage crisis. This finding has implications for postcrisis reform policies.

Mortgage Foreclosure Prevention Efforts

Kris Gerardi and Wenli Li, Federal Reserve Bank of Atlanta, *Economic Review*, vol. 95, no. 2 (2010), http://www.frbatlanta.org/pubs/economicreview/er10n2_gerardi_li.cfm.

This article examines the different loss mitigation tools that mortgage lenders and policymakers have historically used to combat foreclosure, and briefly summarizes the main U.S. programs of recent years. The authors note that

recent programs have had poor results in terms of significantly reducing foreclosures, and borrowers who have received modifications are redefaulting at extremely high rates. Given the limited success of government loan modification programs, the authors believe that policymakers will likely turn their attention to other alternatives, such as trying to help homeowners who have already experienced foreclosure.

The APL Effect: The Impacts of State Anti-Predatory Lending Laws on Foreclosures

Lei Ding, Roberto Quercia, Carolina Reid, and Alan White; University of North Carolina at Chapel Hill, Center for Community Capital, *Research Report* (March 23, 2010), <http://www.ccc.unc.edu/documents/APL.effect.RELEASE.3.23.10.pdf>.

This report employs an index that tests for the presence, strength, and nature of state anti-predatory laws (APLs) and finds that states that enacted more restrictive APLs witnessed lower rates of risky option-adjustable rate mortgages and subsequently lower default rates during the subprime boom. The authors argue that reasonable federal regulation can act as a foundation for consumer protection upon which states can build more stringent legislation according to local market conditions.

Understanding the Boom and Bust in Nonprime Mortgage Lending

Eric S. Belsky and Nela Richardson, Joint Center for Housing Studies of Harvard University, Sept. 2010, <http://www.jchs.harvard.edu/publications/finance/UBB10-1.pdf>.

This paper traces the evolution of mortgage markets in the 1980s and 1990s and their role in the nonprime lending boom and bust in the 2000s. The authors identify four broad factors that likely played a role: global liquidity leading to low interest rates and expectations of rapidly rising home prices; relaxation of mortgage underwriting standards and

the layering of risk in private-label securities and bank portfolios; financial engineering that magnified, multiplied, and mispriced risk; and regulatory and market failures.

American Dream or American Obsession?

The Economic Benefits and Costs of Homeownership

Wenli Li and Fang Yang, Federal Reserve Bank of Philadelphia, *Business Review* (Q3 2010), http://www.philadelphiafed.org/research-and-data/publications/business-review/2010/q3/brq310_benefits-and-costs-of-homeownership.pdf.

This paper analyzes the economic benefits and costs associated with owning one's residence. The authors re-examine a number of rationales that have been put forward in support of homeownership and examine the evidence for an economic cost associated with homeownership. The authors' findings suggest that the economic case for subsidizing homeownership has, at the minimum, been oversold.

Underwater Mortgages

John Krainer and Stephen LeRoy, Federal Reserve Bank of San Francisco, *Economic Letter* (Oct. 18, 2010), <http://www.frbsf.org/publications/economics/letter/2010/el2010-31.html>.

This paper examines the role of falling house prices as a factor in defaults, and how far they must drop before it serves the borrower's rational interest to strategically default. The authors find that the rational default point is below the underwater mark, at which the house price equals the remaining loan balance. The rational default point depends on a borrower's expectations regarding future house price changes and perceived default costs. Barring life events, borrowers are likely to stay in their houses until they are well beyond the book value underwater mark.

Insights from Housing Policy Research: Rental Housing Affordability – A Review of Current Research

Rebecca Cohen, Keith Wardrip, and Laura Williams; The Center for Housing Policy, Oct. 2010, <http://www.nhc.org/media/files/RentalHousing.pdf>.

This report looks at recent trends among renters and in the rental market, drawing from research conducted by the Center for Housing Policy, the Joint Center for Housing Studies of Harvard University, and the National Low Income Housing Coalition. The report notes a number of trends: a growing demand for affordable rental homes; a shrinking and at-risk affordable rental stock; and an increase in the number of renters that have difficulty paying their monthly housing costs.

See also:

The Home Mortgage Disclosure Act at Thirty-Five: Past History, Current Issues, Allen Fishbein and Ren Essene, Joint Center for Housing Studies at Harvard University, Aug. 2010, <http://www.jchs.harvard.edu/publications/MF10-7.pdf>.

Give Credit Where Credit Is Due: An Approach to Revamping CRA, Mark A. Willis, Joint Center for Housing Studies at Harvard University, Aug. 2010, <http://www.jchs.harvard.edu/publications/MF10-9.pdf>.

Improving U.S. Housing Finance through Reform of Fannie Mae and Freddie Mac: Assessing the Options, Ingrid Gould Ellen, John Napier Tye, and Mark A. Willis, New York University—Furman Center for Real Estate & Urban Policy, May 2010, http://furmancenter.org/files/publications/Furman_Center_GSE_Reform_White_Paper_May_2010.pdf.

The Homeownership Gap, Andrew Haughwout, Richard Peach, and Joseph Tracy, *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, vol. 16, no. 5 (May 2010), http://www.ny.frb.org/research/current_issues/ci16-5.pdf.

State Foreclosure Mitigation Strategies: A Comparison of Round 1 and 2 Hardest Hit Fund Plans in States with Nonjudicial Foreclosure Processes, Dan Immergluck, Social Science Research Network, Oct. 20, 2010, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1695217.

Economic Development and Small Business

Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced By MBEs

Robert Fairlie and Alicia Robb, U.S. Department of Commerce—Minority Business Development Agency, Jan. 2010, <http://www.mbda.gov/sites/default/files/DisparitiesinCapitalAccessReport.pdf>.

This report examines how worsening conditions affect minority-owned businesses by highlighting the challenges faced by these firms when securing financing. Key findings include: 1) disparities in access to financial capital grow in the years just after startup; 2) even after controlling for numerous owner and firm characteristics, minority-owned businesses were more likely to have lower levels of external debt financing and external equity financing; and 3) the ability of minority-owned businesses to raise financial capital is limited by having less industry experience, lower sales volumes, and less favorable geographic and industry conditions.

Who Creates Jobs? Small vs. Large vs. Young

John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda; NBER Working Paper No. 16300, Aug. 2010, <http://www.nber.org/papers/w16300.pdf>.

Using data from the U.S. Census Bureau's Business Dynamics Statistics and Longitudinal Business databases,



this paper explores the relationship between firm size and growth. The authors' main finding is that controlling for firm age shows there is no systematic relationship between firm size and growth. The paper's findings highlight the important role of business startups and young businesses in U.S. gross and net job creation. In addition, they find an "up or out" dynamic for young firms. These findings imply that controlling for and understanding the role of firm age in explaining U.S. job creation is critical.

The Capital Structure Decisions of New Firms

Alicia M. Robb and David T. Robinson, NBER Working Paper No. 16272, Aug. 2010, <http://www.nber.org/papers/w16272.pdf>.

This study shows that banks have been an important source of financing for business start-ups. While a bank might not make many direct business loans to start-ups, home equity loans, personal bank loans, and credit card lines of credit are important ways individuals have been able to finance start-up activity. The recent sharp declines in

home equity values and tightening of credit card standards are therefore potential impediments to start-up activity.

See also:

Creating Quality Jobs: Transforming the Economic Development Landscape, Louise Anderson, Frankie Clogston, Dana Erekat, Shari Garmise, Swati Ghosh, Christopher Girdwood, Carrie Mulcaire, and Liz Thorstensen; International Economic Development Council, March 2010, http://www.iedconline.org/Downloads/IEDC_Quality_Jobs.pdf.

The Information Revolution and Small Business Lending: The Missing Evidence, Robert DeYoung, Scott Frame, Dennis Glennon, and Peter Nigro; Federal Reserve Bank of Atlanta, Working Paper 2010-7, March 2010, <http://www.frbatlanta.org/documents/pubs/wp/wp1007.pdf>.

May Oversight Report: The Small Business Credit Crunch and the Impact of the TARP, Congressional Oversight Panel, May 13, 2010, <http://cop.senate.gov/documents/cop-051310-report.pdf>.

Green Development

Building Environmentally Sustainable Communities: A Framework for Inclusivity

Vicki Been, Mary K. Cunningham, Ingrid Gould Ellen, Joe Parilla, Margery Austin Turner, Sheryl Verlaive Whitney, Ken Zimmerman, Adam Gordon, and Aaron Yowell;

Urban Institute and New York University—Furman Center for Real Estate & Urban Policy, April 2010, <http://www.urban.org/uploadedpdf/412088-environmentally-sustainable-communities.pdf>.

This report uses environmental sustainability and demographic inclusivity benchmarks to measure the sustainability of communities in New York City and Seattle. Recognizing that environmental sustainability and inclusion complement and compete with each other, this report provides a guide for how to marry the two. The federal government should offer a balanced portfolio of investments and incentives, some aimed at maximizing environmental sustainability and others aimed at maximizing opportunity—with inclusion as the primary goal and environmental sustainability as the secondary goal.

Value Beyond Cost Savings: How to Underwrite Sustainable Properties

Scott Muldavin; Green Building Finance Consortium, 2010, <http://www.greenbuildingfc.com/Documents/Detailed%20TOC-Value%20Beyond%20Cost.pdf>.

Sustainable property underwriting does not require fundamental changes in traditional underwriting or valuation practice, but underwriters, acquisition analysts, appraisers, and others will need to collect new information and learn new analytic techniques in order to properly address some of the special considerations of sustainable properties that determine property value. This book assists in that effort.

See also:

Building on the Success of Energy Efficiency Programs to Ensure an Affordable Energy Future: State-By-State Savings on Residential Utility Bills from Aggressive Energy Efficiency Policies, Mark Cooper, Consumer Federation of America, Feb. 2010.

Using Executive Authority to Achieve Greener Buildings: A Guide for Policymakers to Enhance Sustainability and Efficiency in Multifamily Housing and Commercial Buildings, Tomás Carbonell, Shelley Fidler, and Douglas Smith, U.S. Green Building Council, April 29, 2010, <http://www.usgbc.org/DisplayPage.aspx?CMSPageID=1779>.

General Interest

REO & Vacant Properties: Strategies for Neighborhood Stabilization

Prabal Chakrabarti, Matthew Lambert, and Mary Helen Petrus, eds.; Federal Reserve Banks of Boston and Cleveland and the Federal Reserve Board, Sept. 2010, http://www.clevelandfed.org/Community_Development/publications/REO/REO_WEB.pdf.

This compilation of 17 articles from the Sept. 1 and 2, 2010, summit held at the Federal Reserve Board exam-

ines a variety of neighborhood stabilization issues. The collection highlights areas of need—such as for data, technology, and collaboration—and promising solutions from communities across the country. Examples include a land bank that holds vacant properties until they can be returned to productive use and efforts to purchase foreclosed properties and sell them back to former owners or tenants using a licensed mortgage affiliate.

Federal Post-Disaster Recovery: A Review of Federal Programs

Amy Liu; Metropolitan Policy Program at Brookings, May 2010, <http://www.urban.org/uploadedpdf/1001384-federal-post.pdf>.

This report summarizes observations and recommendations that emerged from a roundtable discussion about the federal role in postdisaster recovery efforts. It notes that the complex structure of federal disaster programs limits the ability of communities to craft unique responses, carry over program experience and knowledge, and respond in a timely manner. Recommendations include collapsing the 50 existing programs into five broad and flexible programs, establishing a long-term recovery office independent of existing agencies, and requiring disaster response planning to increase community preparedness. This report stresses that recovery ultimately occurs at the local level.

See also:

A Template for Success: The FDIC's Small-Dollar Loan Pilot Program, Rae-Ann Miller, Susan Burhouse, Luke Reynolds, and Aileen Sampson, Federal Deposit Insurance Corporation, *FDIC Quarterly*, vol. 4, no. 2 (2010), http://www.fdic.gov/bank/analytical/quarterly/2010_vol4_2/FDIC_Quarterly_Vol4No2_SmallDollar.pdf.

Geographic Targeting Issues in the Delivery of Rural Development Assistance, Richard Reeder and Faqir Bagi, U.S. Department of Agriculture—Economic Research Service, *ERS Report Summary* (April 2010), http://www.ers.usda.gov/Publications/EIB65/EIB65_ReportSummary.pdf.

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