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Gearing Up for Green Jobs: What Can We Expect?

More than Their Share: Property Taxes in Atlanta Neighborhoods Hardest Hit by Foreclosures

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COVER STORY

Gearing Up for Green Jobs: What Can We Expect?

New “green” jobs are an important piece of the nation’s economic recovery strategy. But to make the most of their potential to boost employment, policymakers and planners will need good systems to anticipate demand, create educational infrastructure and monitor programs that provide opportunities.

FEATURES

STEERING CLEAR OF FORECLOSURE PREVENTION SCAMS

Juan C. Sanchez
Vice President and
Community Affairs Officer

Mortgage-related fraud and scams are nothing new, but novel forms of these illicit activities are certainly on the rise.

As early as the 1970s, "flipping" properties had become a common problem, especially in inner city neighborhoods. Lower income communities were frequently targeted by investors or developers who purchased vacant or dilapidated homes and resold them for huge mark-ups. Flippers would typically sell the properties among themselves several times before finally passing the houses on to homebuyers at inflated market values. They would add a fresh coat of paint and do some minor cosmetic work, but seldom made substantive repairs. These properties were nevertheless often sold as rehabilitated homes for much more than they were worth.

Mortgage fraud has become more sophisticated over time and more difficult to detect. Some organizations have hired their own appraisers and title companies to elevate property values quicker and issue clean title. Fraud has also been detected in loan files, where it is not uncommon to find falsified applications, pay stubs, tax returns and bank statements that overvalued homes and saddled homebuyers with loan terms they could not afford.

The U.S. Treasury and the Financial Crimes Enforcement Network estimate the cost of mortgage fraud to the industry as high as $25 billion in 2008, when over 65,000 Suspicious Activity Reports were filed. A report by the Mortgage Asset Research Institute (MARI) indicates the majority of mortgage scams detected last year were connected to application fraud and falsification of financial statements.

In addition to these common scams, which are still prevalent, new forms of fraud are appearing. The current deterioration in the housing market and the rising number of foreclosures has spawned a wave of new activities in the guise of foreclosure prevention services.

These "rescue" scams target consumers in danger of losing their homes to foreclosure. They claim their services will help homeowners save their property, but they nearly always fail to deliver. These con-artists, who may also claim to provide foreclosure counseling, make a profit by collecting upfront fees or cashing in on mortgage payments that are never paid to the lenders. Ultimately their actions strip equity and hasten foreclosure.

Foreclosure schemes may also promise rescue loans, loan refinances or workouts. Legal forms designed to look like loan documents are presented to consumers, but those who fall into the trap find they are actually signing transfer of title documents and surrendering legal rights to their properties.

The Federal Reserve System is following emerging predatory foreclosure schemes closely and taking steps to arm consumers against them. For example, the Fed has launched advertisements in movie theaters in some of the highest foreclosure markets in the country to inform consumers about these illicit practices. We are also working closely with nonprofit organizations and legitimate counseling agencies to ensure that homeowners threatened with foreclosure receive reliable assistance from reputable organizations.


U.S. WORKFORCE
JOBS
GREEN
JOBS

Gearing Up for Green Jobs: What Can We Expect?

POLICYMAKERS LOOKING FOR A SILVER LINING TO THE DARK CLOUD HOVERING OVER THE U.S. ECONOMY ARE SEEING GREEN. SOME ARE HOPING THAT NEW JOBS CREATED BY ALTERNATIVE ENERGY AND ENVIRONMENTAL INDUSTRIES WILL ACT AS A PANACEA FOR THE NATION'S SPUTTERING ECONOMY. BUT HOW MUCH CAN WE COUNT ON "GREEN JOBS" TO JUMPSTART THE RECOVERY?

A recent study by Georgia Institute of Technology's Enterprise Innovation Institute, along with the City and Regional Planning Program and School of Public Policy, indicates that to make the most of green industries, we'll have to understand them better (Youtie et al, 2008). The study tries to clarify some basic questions to create a clearer picture of what to expect from investment in environmentally conscious economic development.

What exactly is a green job? What sort of demand will we see for green workers, and what kinds of job-slots will they fill? What will it take to initiate green projects that create the jobs? And what kind of educational preparation will workers need to step into the new positions?

Crunching the numbers

Focus on green technologies has prompted a wide range of estimates about the number of green jobs we can expect from investment in alternative energy sources and fuels. The U.S. Conference of Mayors in 2008 estimated 4.2 million new green jobs over the next 30 years. A study published by the Center for American Progress predicts that an investment of $100 billion in green technologies would result in an estimated 2 million green jobs over a two-year period (Pollin et al, 2008).

RAND Corporation analysts (Toman et al, 2008), and the University of Tennessee's Agricultural Economics Division, found that if we could reach the goal set by the 25x25 Alliance of obtaining 25 percent of our energy from renewable sources by 2025, we would generate 5 million new jobs (English et al, 2006).

These varying projections are based on a whole range of different approaches to everything from how green industry is defined to what sorts of models are used to link green industry to job increases. Clarifying some of these approaches will give us a better idea of what to expect from the "green revolution."

Just what is a green job or a green industry? Would a high tech photovoltaic plant that supplies renewable solar energy at decreasing costs with increasing efficiency be considered "green"—even though it works with environmentally noxious chemicals? Can existing construction, manufacturing, utility and service industries be seen as part of the green tech sector if they are implementing strategies to reduce their environmental footprint?

Once we have defined what a green job is, how can we anticipate the magnitude of the need for a green workforce? Will the need increase incrementally or gradually? Or will the growth of green industry mirror the trajectory of information technology, which required a huge workforce with new skills?

What do policymakers need to do to help people and industry benefit from the green movement?

In Georgia Tech's study, "Energy and Environmental Workforce Needs: Supply and Demand in Georgia" (Youtie et al, 2008), we look at the demand for green jobs in Georgia at the higher education level as compared to the supply of green workers, and we project the types of educational programs the state could institute to address this need.

What is a Green Job?

Defining "green jobs" is critical to tracking and anticipating their impact on the economy. Unless economic analysts can find green jobs in various databases, it will be difficult to know if green industries are being sufficiently cultivated to grow new jobs.

One definition was posed in a recent TIME Magazine quoting Phil Angelides of the Apollo Alliance, a business, labor, environmental, and community coalition that promotes clean technologies and practices, as well as works to maximize the economic promise they hold (May 26, 2008). Explaining how "green collar jobs" differ from other jobs, Angelides states that a green collar job must provide a livable wage and "reduce waste and pollution and benefit the environment." (See Walsh 2008 for more on "green collar jobs.") This definition involves two concepts (with the notion of fair wages being endemic to both): (1) conservation of energy resources and (2) minimization of negative environmental impacts. While this definition certainly makes sense at the conceptual level, it doesn't help distinguish green jobs from other types of occupations in existing databases.

A definition that would make it possible for economists to track the impact of green jobs has to navigate between overly narrow and overly broad understandings. A narrow approach might, for example, focus strictly on emerging clean technologies such as fuel cells to estimate the number of new jobs that will be created.

One thing we know about green activities is that they form platform technologies and techniques that can be applied to a variety of existing as well as future industries and occupations. In its broadest understanding, energy and environmental industries could include any business that monitors its use of energy and the waste it emits, because attention to these issues represents a change in the way all business is being done. Many existing businesses are creating new positions for energy and environmental specialists to address these changes. How analysts come to terms with this problem of scope affects most estimates of the impact of green industries on job production.

Government classifications of publicly available information reflect the dilemma of capturing jobs in energy and environmental areas. Emerging clean technologies are but a very small part of much broader North American Industrial Classification System (NAICS) classes. (NAICS is the standard used by Federal statistical agencies in classifying business establishments and jobs by industry type.) For example, fuel cells (which are a type of battery designed to reduce emissions) are included in NAICS class 3359, "All Other Miscellaneous Electrical Equipment and Component Manufacturing." This class encompasses quite a diverse range of electrical devices in addition to fuel cells—such as bells, garage door openers, surge suppressors and particle accelerators.

A comparison of six national and state studies of green industries found that the definitions they used were not necessarily consistent: Some counted conventional energy sources such as oil and gas extraction, electric power generation, and petroleum refineries as part of the energy and environmental industry cluster (for example, the President's High Growth Job Training study), while others only included emerging clean technologies (for example, the Massachusetts Clean Energy Cluster study). Some placed the construction industry under the "high performance building" or "green building" category of green jobs, while others focused solely on energy resource and environmental consulting services. It would surely be helpful for government classifications to create a special class for renewable energy and environmental industries, similar to the ones they created for information technology industries, which were formerly scattered across several NAICS classes.

Likewise, no standard definition exists of what is and what is not an energy or environmental occupation. The Standard Occupation Classification (SOC) system published by the Office of Management and Budget (OMB) in 1999 is used by the U.S. Bureau of Labor Statistics to portray and project occupational employment information. Like the NAICS-based analysis of industries, SOC classification systems yield a widely diverse picture of green jobs, depending on how the information is assessed. For example, three of seven SOC-based reports on green jobs agree that the category Environmental Engineering Technicians (SOC 17-3025) is a green occupation. But only one source

Explaining how "green collar jobs" differ from other jobs, Angelides states that a green collar job must provide a livable wage and "reduce waste and pollution and benefit the environment."

considers Mining and Geological Engineers (17-2151) as a green occupation.

Although at present there is no resolution to these definitional dilemmas, it is important to be aware of how approaches to measurement affect various analyses of green job growth and to keep this in mind when reviewing estimates of needs associated with green jobs.

How many new green jobs can we expect? A case study

Reliable data about green jobs is important for assessing how well educational systems are meeting the needs of new and existing green industries. Our study took problems of estimation into account as we tried to determine whether energy and environmental industries can be enhanced by the expertise produced by the state's higher educational system.

The team's estimation process drew on definitions of green industries that included the mining of energy resources; generation, transmission and distribution of energy resources by a public utility; manufacturing of energy and environmental products; and environmental and energy-related research and development, treatment and remediation services. The definition did not include the construction industry because it did not comport with an existing state economic development standard. The analysis applied the definition by using 12 NAICS-based industries, 26 occupations and 61 postsecondary educational specializations.

The results showed that Georgia has 46,000 employees working in energy and environmental industries. Existing firms in these industries experienced a modest decline in employment of less than 2 percent between 2001 and 2006. Future projections indicate a 6 percent increase in employment in the green tech industries is likely by 2014. From an occupational standpoint, projections to 2014 indicate that the state would need 1,340 workers annually in the 26 targeted energy and environmental occupations, including both new positions and replacements for employees that leave the workforce.

A comparison of estimates of demand for workers with the current supply of graduates in relevant fields from the state's public and private postsecondary educational systems showed a modest shortfall. Forty-four of Georgia's public and private postsecondary educational institutions have relevant offerings in most of the 61 targeted instructional programs related to our definition of green jobs.

When we matched the number of graduates from these programs—specifically the average annual number of graduates between 2004 and 2006 in the targeted instructional programs—with the annual demand for employees in the 26 energy and environmental occupations under analysis, we found an estimated overall annual shortfall of more than 140 workers in seven occupations. These occupations are mostly in environmental engineering, including chemical technicians and other technicians, as well as in atmospheric, materials, and environmental science areas.

Although these shortfalls are notable, they aren't of a magnitude to meet the hopes of national observers who have likened green job growth to that of the dot-com era of the 1990s. The reasons for this discrepancy are many, including:

- A lack of clarity exists about which renewable and alternative energy technologies will be widely and commercially accepted. For example, biofuels attracted the largest share of venture capital in 2006, then dropped by more than 50 percent in favor of solar technologies by 2007, according to a 2008 report by PricewaterhouseCoopers.
- The impact of the retirement of engineers and scientists who came out of energy crisis of the 1970s and have had decades of experience (including in nuclear energy facility construction) is uncertain.
- The demand for high performance buildings remains unrealized. The extent to which businesses and households will adopt (and pay for) smart practices in existing and new buildings is a pertinent consideration. Such practices include attention to building materials, landscaping, site and transportation relationships, interior design, lighting and use of daylight, refrigeration, energy management and use of renewables, water management, waste minimization and recycling.

Green Jobs and Community Development

Within this uncertain environment, what alternatives are available for decision makers to help ensure that people and industry benefit from the green movement?

First, monitoring new programs to make the most of opportunities in recent federal legislation is important. For example, policymakers should be aware of significant provisions of the American Recovery and Reinvestment Act (ARRA) stimulus package for tax credits, research and development, state planning grants, and energy infrastructure.

Second, many state and local governments have paved the way with legislation devoted to the development of green economy jobs and training programs, such as the Governor's Climate Change and Green Collar Jobs legislation in the state of Washington. Others have issued stipulations that encourage green activities in state government, such as the state of Virginia's certified energy manager directive.

Third, training and educational programs should review and update their course offerings in response to the current and potential needs of green industries. While engineering and environmental science programs are certainly central in meeting these needs, management and policy sciences concentrations are also important as companies and governments look for expertise in sustainability reporting and carbon footprinting. The degree of breadth necessary in the green technology domain will require careful attention because of the cross-disciplinary nature of training required to address it.

Technical training certificates and programs will also play an important role in providing high performance building skills for installers, operators, code officials, home energy raters, Leadership in Energy and Environmental Design (LEED) professionals and other trades. A number of best practices across the U.S. in green technology education and program development can be reviewed for setting up and operating pilot training programs, some of which may require specialized facilities ranging from small-scale bio-refineries to roof space for solar power technology installation.

Fourth, any approach to action should take into account both the need to anticipate demand and the need to reflect on potential. In anticipating demand, policymakers should be aware that market dynamics that are gradual today could become sharply disruptive tomorrow.

At the same time, a thoughtful approach to issues would match research to distinctive local characteristics and needs as well as entrepreneurial and commercial markets. It would also consider the offerings and capabilities of existing training and education providers and aim to make opportunities for participating in the energy economy widely available.

Without this dual approach, a region's investment may undershoot potential benefits for its businesses and citizens or fail to pay off. ■

This article was written by Jan Youtie, Ph.D., manager of policy services for the Enterprise Innovation Institute and an adjunct associate professor in the School of Public Policy at Georgia Institute of Technology.

For more information:
Corps Network, **www.corpsnetwork.org**
Limitless Vistas, Inc., **www.limitlessvistas.org**
GreenForAll, **www.greenforall.org**

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Preparing a Green Workforce

Green workforce development programs are sprouting up everywhere. These programs train people for jobs that create products or services designed to minimize environmental impact—in industries like agriculture, natural resource conservation, clean transportation and fuel, renewable energy production, energy efficiency, green building construction, pollution prevention and environmental clean-up. Some programs target specific populations for training, such as at-risk youth, low-income individuals or the unemployed.

Many of these initiatives are facing challenges, but the time is right for finding solutions. Not only are green industries growing, but many opportunities exist for such programs to receive federal dollars.

The Corps Network, which works in communities around the country to initiate green training and service programs for youth, understands the obstacles that confront green workforce development. Sally Prouty, President and CEO of the Corps Network, shared the experience of one green workforce development initiative in Mississippi: "Programs need both capital and operating dollars. The Gulf Coast Conservation Corps (GCCC) closed its doors in spite of great successes." The GCCC trained 72 youth, who contributed 25,085 hours of service to their community.

Prouty continued, "Project partners were delighted with the quality (and quantity!) of work. However, [the GCCC was] unable to attract the local resources required to match the federal investment that was available." In addition to lack of local funding, Prouty cited other hurdles such as securing partnerships, making solid connections with green employers, and understanding the skills and competencies required for green employment.

Limitless Vistas Inc. (LVI), a green workforce training program in New Orleans, continues to train workers. It provides instruction in weatherization, biodiesel production, environmental science technologies, brownfield remediation and life skills to disadvantaged youth between the ages of 17 and 25. Of the 160 students to complete LVI's program since its inception in 2006, approximately 60 percent have found their way into jobs or higher education, according to Jose Cruz, senior field manager of LVI. He said students receive a stipend while they are being trained.

The organization relied on seed grants to get established, but it now follows a sponsor-match funding model—also known as a fee-for-service model—that is helping LVI become a sustainable nonprofit.

A relatively new national organization, Green For All, offers support for green workforce development programs. Created in 2007 with the mission of bringing about an inclusive clean energy economy, Green For All provides guidelines for best practices, links to resources, and discussion forums where green workforce development practitioners can share their knowledge.

According to Prouty, another key to success is expanding collaboration efforts from traditional, industry- specific partners to include new, non-industry-specific partners—academic and vocational institutions, local government agencies, and firms with an interest in community development. She believes "cooperative identification of the most substantial challenges and cooperatively developed solutions" will lead to high-quality, effective green workforce development programs. ■

Written by Jessica Dill, research assistant at the Federal Reserve Bank of Atlanta.

More than Their Share: Property Taxes in Atlanta Neighborhoods Hardest Hit by Foreclosures

AS THE FORECLOSURE CRISIS CONTINUES TO DECIMATE NEIGHBORHOODS ACROSS THE COUNTRY, IT LEAVES IN ITS WAKE DISPLACED FAMILIES, VACANT HOMES AND THE POTENTIAL FOR INFLATED PROPERTY TAXES.

Property taxes that fail to reflect sinking market values create an unfair burden on residents of high-foreclosure neighborhoods. Atlanta Neighborhood Development Partnership (ANDP), a housing nonprofit that for 18 years has focused on development, lending and public policy to support mixed-income communities, has identified the need to address property tax disparities as a critical part of a comprehensive regional foreclosure response strategy.

"Distressed neighborhoods will not begin to stabilize and come out of this crisis until vacant homes are occupied again," said John O'Callaghan, president and CEO of ANDP. "When property taxes are out of line with true market values, it not only hurts families struggling to keep their homes, it deters future buyers from moving into the neighborhood—leaving homes empty and values depressed. This is both an equity issue, ensuring that impacted homeowners do not pay more than their share, and a neighborhood recovery issue."

What accounts for inflated property taxes in high-foreclosure communities? Until very recently, tax assessors in Georgia and many other states did not consider foreclosed and bank-owned home sales in their property valuation assessment formulas, which include a review of recent comparable sales. As a matter of standard practice, foreclosed and bank-owned sales were considered "invalid" or outlying sales and not representative of the market as a whole.

However, the real estate market in Georgia and metro Atlanta has changed dramatically over the last two years. Georgia ranked eighth in the nation in foreclosure filings in 2008. Last year, there were more than 85,000 foreclosure filings in the state—44 percent more than in 2007 and a 117 percent more than in 2006. Metro Atlanta accounts for 81 percent of Georgia's foreclosures. In fact, Atlanta ranks third nationally (behind only Las Vegas and Detroit) in the number of vacant rental units and single family homes, according to U.S. Census Bureau statistics.

ANDP first developed experience in the impact of property tax issues on lower-income families in 2008, when the organization led a successful effort to double the Homestead Exemption for the City of Atlanta and Fulton County. Through its "Keep Atlantans Home" campaign, ANDP found legislative sponsors in the Georgia General Assembly; researched best practices on Homestead Exemptions; built a broad network of support within and beyond the affordable housing community; and generated hundreds of calls and emails to legislators.

At the close of the 2008 General Assembly session, legislators voted to increase the Atlanta-Fulton Homestead

Exemption from $15,000 to $30,000 over three years. (It had not been updated since 1993.) Voters overwhelmingly approved the measure on the November ballot, resulting in an estimated $23 million annually in property tax savings for low- and moderate-income homeowners.

"We knew from our Homestead efforts and experience in development that higher property taxes were a serious obstacle for lower-income neighborhoods," said Sharon Gay, ANDP's Board Chair. "As we retooled ANDP to focus all of our attention and resources on foreclosure response, we directed our policy efforts to address the impact of the crisis on property taxes."

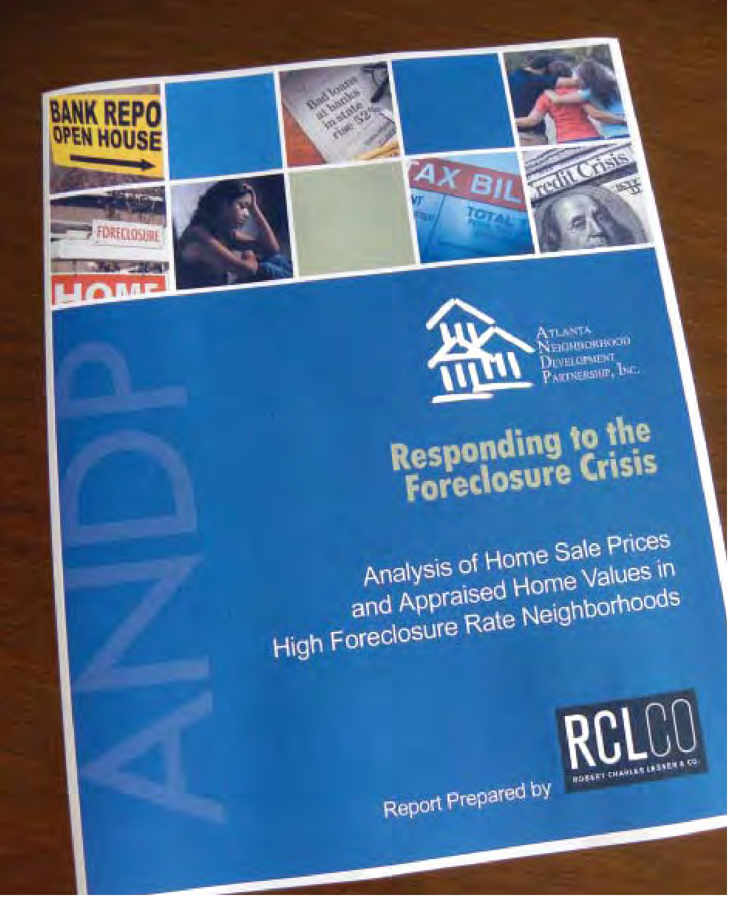
Research shows highest-foreclosure areas run greatest overpayment risk

To understand and quantify the risk for overpayment of property taxes in Atlanta's highest-foreclosure neighborhoods, ANDP hired Robert Charles Lesser and Company (RCLCO), a national real estate advisory firm, to compare home sale prices and tax-appraised values in the five-county core of metro Atlanta (Clayton, Cobb, DeKalb, Fulton and Gwinnett Counties). The scope of RCLCO's review included the 15 ZIP codes across the metro core with the highest foreclosure filing rates.

The initial report from RCLCO, which included home sales from the first six months of 2008, found that the 15 highest-foreclosure ZIP codes would account for an estimated $71.5 million in property tax overpayment if dramatic reassessments were not made in 2009. The risk for overpayment in Clayton, DeKalb and Fulton Counties was significantly higher than in suburban Cobb and Gwinnett Counties, where foreclosure filings were less prevalent. In Fulton County's 30310 ZIP code, comprised of largely minority, urban neighborhoods located southwest of downtown Atlanta, the median sales price was $38,500, but the median appraised value was over $120,000. Without downward value adjustments, 30310 homeowners would overpay their taxes by an estimated average of $1,464 annually or $122 per month, resulting in a total ZIP code overpayment of $10.4 million.

"We expected to see some overpayment risk metro-wide due to the overall decline in home sales prices in Atlanta, but we were surprised to find that these 15 ZIP codes alone accounted for more than 80 percent of the total metro-wide overpayment," said Dave Pierce, who managed the analysis for RCLCO. RCLCO's research also revealed that the highest-foreclosure ZIP codes had a greater percentage of lower-income, minority and unemployed residents.

In April 2009, RCLCO updated its initial analysis with home sales data from the second half of 2008. The tax disparities expanded significantly in late 2008 as sale prices continued to plummet in the high-foreclosure ZIP codes.



"Local governments are facing extremely tight budgets," said Sheperd. "But we cannot stand by while homeowners in our most vulnerable neighborhoods are shouldering more than their fair share of the tax burden."

The overpayment risk for the same 15 ZIP codes jumped 66 percent to $118 million. In the low-income neighborhoods surrounding Atlanta's Turner Field Stadium, the report found that homeowners would pay $1,904 annually in excess property taxes without an appropriate adjustment in value. While Clayton, Fulton and DeKalb continued to show the biggest gap between current market value and tax appraised value, the suburban counties—Cobb and Gwinnett—also saw their overpayment risk climb as foreclosures in the second half of 2008 began to depress home prices.

"Our updated report showed that homes in the 15 highest-foreclosure ZIP codes were overvalued by 43 percent relative to current market value, while metro homes outside those ZIP codes were overvalued by 12 percent," said RCLCO's Pierce.

"It's important to note that our research did not include distressed sales on the courthouse steps," Pierce added. "We pulled our sales data exclusively from a multiple listing service, which reflects only arm's-length real estate transactions between a willing seller and a willing buyer."

Outreach to tax assessors, elected officials and homeowners

"These are unprecedented times," said ANDP's O'Callaghan. "Tax assessors across the country are struggling to value properties in a rapidly declining market after years of steady appreciation. Our goal from the beginning was to work collaboratively with the chief appraisers and their boards to be a part of the solution."

ANDP met with metro chief appraisers collectively and individually and provided them with RCLCO's analysis in advance of the public release of the data. They presented the findings to the county Boards of Assessors, regularly attended public Board meetings, and encouraged an open and ongoing dialogue with Board members and staff.

Knowing that local governments would be concerned about the fiscal impact of declining property tax revenue, ANDP also worked to educate elected officials about the tax inequities in high-foreclosure communities. Tax assessors, county commissioners and other elected officials were invited to participate in a media event to release the RCLCO findings. Atlanta City Council Member Joyce Sheperd, whose district includes one of the City's highest foreclosure ZIP codes, was among those attending.

"Local governments are facing extremely tight budgets," said Sheperd. "But we cannot stand by while homeowners in our most vulnerable neighborhoods are shouldering more than their fair share of the tax burden. Tax officers are legally bound to get this right by issuing fair and accurate assessments."

Sheperd introduced a resolution, passed unanimously by the Atlanta City Council, urging Fulton County tax officials to "take direct action to update tax appraised values." And shortly thereafter, the Fulton County Commission approved a similar measure, introduced by Commissioner Emma Darnell, encouraging the County Board of Assessors to "use innovative methods to assess property values for the 2009 digest, particularly in neighborhoods with high rates of foreclosure."

While ANDP's primary focus was addressing the tax issue at the digest level, the organization also reached out directly to homeowners in affected communities to educate them about the tax disparities and advise them on their rights to file a tax payer assessment (TPA). When a homeowner files a TPA they have the opportunity to tell the county what they think the fair market value of their home should be. The county is then required to review the property's value and make adjustments if it deems changes appropriate. Filing a TPA is considered a "first-step" toward appealing property taxes.

ANDP made presentations at neighborhood association and community meetings in the areas at greatest risk for overpayment. They also posted step-by-step instructions, along with deadline alerts, for filing TPA forms on the ANDP website.

Media focus raises awareness and inspires legislation

Consistent media attention to the ANDP/RCLCO research over the last ten months in local news outlets helped to raise public awareness, keep tax assessors accountable, and fuel legislative efforts at the Georgia General Assembly to close the gap between home prices and tax appraised values.

Leading local coverage of the issue was the Atlanta Journal-Constitution's (AJC's) senior local government reporter, D.L. Bennett, who wrote numerous articles on the property tax gap.

"Assessments have gotten more attention this year than anytime since the early 1990s, when the Legislature required every county to revalue. And deservedly so," says Bennett. "The rules in place in 2008 did not address a market where foreclosures and bank-owned sales were dominant. That created the possibility for wide discrepancies between tax appraisals and market values."

"The paper's role as public policy watchdog required consistent and vigilant attention to an issue that's critical to virtually everyone in the state," Bennett added. "Even if you don't own property, taxes are passed on to tenants and collected in rents. Also, local governments rely heavily on property taxes to fund their operations."

Informed by the property tax research and media coverage, Georgia State Senator Chip Pearson introduced a bill mandating tax assessors to include foreclosed and bank-owned sales in the property valuation process. The bill was passed in the final days of the 2009 General Assembly session and signed into law—effective immediately—by Governor Sonny Perdue on April 14.

The results

Metro Atlanta tax assessors began issuing 2009 tax notices in the late spring. On May 25, the Atlanta Journal-Constitution reported that tax values were lowered for more than 350,000 homes in the five core counties. When DeKalb County tax officials failed to comply with the new law and reduced values on only 13,500 properties, DeKalb CEO Burrell Ellis persuaded county assessors to reconsider their 2009 assessments. A second round of notices yielded reductions on 40,000 homes. A local attorney (independent of ANDP) subsequently filed suit against the county, charging that assessors did not go far enough in reducing property values. Action on the suit is pending.

ANDP is preparing to repeat the RCLCO analysis with sales data from 2009 to review how well tax assessors did in reducing property values, specifically within the 15-ZIP-code study area. That report is scheduled for release in October.

"The tax inequity faced by high-foreclosure neighborhoods is not unique to Atlanta, but we were hard-pressed to find other regions nationally that were proactively addressing the issue," said ANDP's O'Callaghan. "We hope that this research model and the action by county assessors will serve as a model for metro areas across the country." ■

This article was written by Susan Adams, director of research, policy and information for the Mixed Income Communities Initiative (MICI) at the Atlanta Neighborhood Development Partnership. www.andpi.org.

Looking Beyond Foreclosures:

Recent Trends in Residential Finance and Housing Markets, Part I

The U.S. mortgage crisis and the larger financial crisis that followed have had, and will continue to have, widespread impacts on housing finance, housing markets, and community development.[1] How will these shifts affect homeownership and affordable housing finance over the near and longer term? Some of the repercussions are already evident; others will depend on developments in the broader financial markets and the real economy, as well as on policy responses.

Although it is impossible to discuss housing finance issues completely outside the context of the broader economy, responses closely tied to changes in financial markets are the particular focus of this article—especially trends in home purchase lending, homeownership and tenure, and the multifamily finance market. Dan Immergluck, associate professor at the Georgia Institute of Technology, explores these issues and the policy implications in a two-part series. Part I examines the expanding role of the Federal Housing Authority (FHA) in home finance. Part II, to appear in the next issue of *Partners*, will look at the implications on homeownership rates, the prospects for the rental housing markets, the uncertainties in multi-family housing finance, and alternative tenure options.

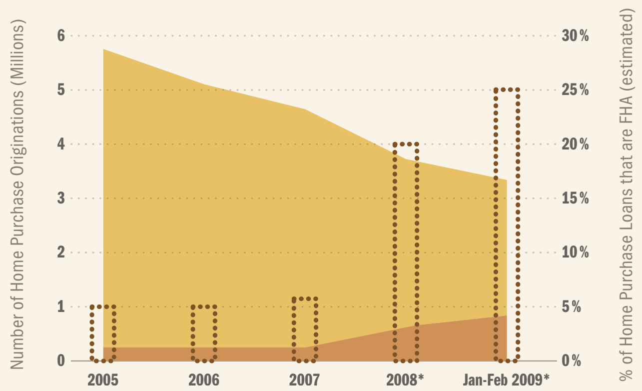
Homeownership Finance

Arguably no activity has been more affected by the crisis than that of mortgage markets. Even after accounting for the demise of subprime lenders, many lenders have tightened their own lending standards. The Federal Reserve's quarterly Senior Loan Officer Survey shows that mortgage lenders began creating stricter credit standards in 2007, and this continued through at least the spring of 2009, although the pace of tightening began to slow some in late 2008. However, even in early 2009, 49 percent of lenders continued to rein in credit standards, while no lenders reported easing standards.

One result of the more stringent standards of conventional lenders (those making loans not directly guaranteed or insured by the FHA or Veteran's Administration [VA]) has been a shift to loans insured by the FHA. FHA market share, which had fallen to less than 15 percent of home purchase loans by the 1990s, dropped even further from 2003 to 2006, as subprime lenders captured much of FHA's share. Figure 1 shows that FHA's share increased from 5 to 7 percent between 2005 and 2007 to an estimated 25 percent by early 2009. At the same time, the raw number of conventional home purchase loans declined substantially over this period. The FHA's expansion, combined with the conservatorship of the government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, meant that the federal government became a critical driver of the mortgage market by late 2008. The Federal Housing Finance Agency estimates that over 94 percent of mortgage originations (purchase and refinance) in the first quarter of 2009 directly involved the FHA, the VA, or Fannie Mae or Freddie Mac.[2] Although the future of the GSEs will be the subject of substantial policy debate over the next year or two, it remains clear that the federal role in the home loan market has become more important than ever.

Figure 2 utilizes data from LPS Applied Analytics, which collects information on loans serviced by 18 large mortgage servicers (including 9 of the top 10). It shows that recent FHA loans (during the fourth quarter of 2008) constituted a larger proportion of home purchase originations in higher-poverty ZIP codes than in lower-poverty ZIP codes. These figures may reflect differences in real or perceived risks across ZIP code types (including differences in credit scores and down payments), differences in lending practices across neighborhoods, or other factors. Regardless of the reasons behind these disparities, they are important to recognize. In part because FHA loans are generally more expensive, such disparities could have significant consequences for lower-income communities. More work

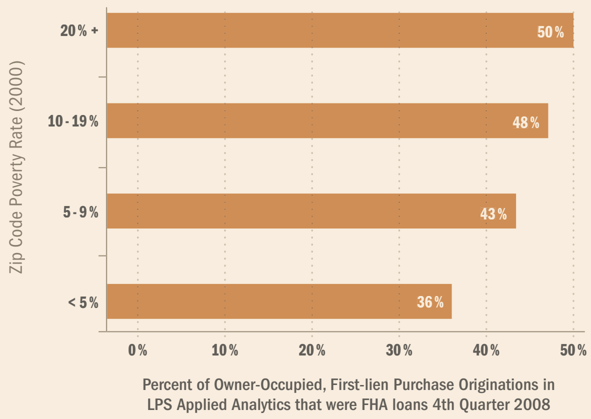
Figure 1. FHA Becomes a Bulwark in the Home Purchase Market



* Jan-Feb 2009 is seasonally adjusted, annualized rate; 2005-2007 total originations, FHA and market share are from HMDA; 2008 and 2009 based on FHA reports and % of estimated home sales covered in HMDA in recent years. Home sales estimated from HUD.

Data source: FHA Single Family Activity Report; Home Mortgage Disclosure Act data (www.ffied.gov)

Figure 2. FHA Loans Represent a Larger Share of Recent Loan Activity in Lower-Income Neighborhoods*



* Note that the LPS data do not cover the entire market and appear to cover FHA loans at disproportionately high rates.

Data source: LPS Applied Analytics; U.S. Census

is needed to understand what lies behind these disparities and what they imply for lower-income neighborhoods.

In addition to the geographic patterns, FHA loans have become the dominant source of credit for homebuyers who make down payments of less than 10 percent. In the fourth quarter of 2008, fewer than 13 percent of conventional purchase originations in the LPS Applied Analytics data set had loan-to-value (LTV) ratios above 90 percent, compared to over 81 percent of FHA loans. Fewer than 4 percent of conventional loans had LTV ratios of more than 95 percent, compared with more than 62 percent of FHA loans.

While the FHA has accepted some of the higher-risk segments of the market vis-à-vis conventional lenders, the average credit scores of FHA borrowers have actually increased significantly during this time; mean FICO scores for those receiving home purchase loans rose from 608 in October 2007 to 673 by May 2009.[3] This suggests that some retrenchment by conventional lenders (and/or private mortgage insurers or the GSEs) has fed the expansion of FHA market share.

Some Implications for Affordable and Fair Housing Policy and Practice

The trends outlined here suggest a number of implications for affordable and fair housing policy and practice. First, while it is too early to say whether an FHA market

"After climbing from the mid 1990s through the early 2000s, the homeownership rate in the U.S. began dropping during 2005, driven by surging foreclosures."

share of 25 percent (or perhaps substantially higher) will persist as a "new normal," it is likely that the FHA will play a major role in home purchase markets for quite a while.[4] It will be important for the agency to modernize its operations fully and for policymakers and others to pay close attention to the operations and details of this program, as it is likely to have substantial impacts on the mortgage and housing market for the foreseeable future, especially in low- and moderate-income communities. While the U.S. Department of Housing and Urban Development has itself recently increased scrutiny of FHA lenders, the FHA's long-term history is replete with problems of property flipping scams and the like. Modernizing the FHA also means institutionalizing antifraud practices and systems for the long run.

Second, FHA's larger share of the home purchase loan market in lower-income communities, while not unexpected, suggests the need for strong attention

to fair lending and community reinvestment patterns of conventional versus FHA lenders. The policies and practices of conventional lenders and mortgage insurers should be examined for potential fair lending problems and impediments to sound community reinvestment. So-called "declining market" policies by mortgage insurance firms, for example, should be justified based on hard data that can be examined for disparate impacts that may not be justified by business necessities.

In the next issue of *Partners*, Immergluck will examine trends in homeownership nationally and in select metropolitan areas, ways to increase affordable tenure options, and the challenges facing multifamily housing finance. ■

This article was written by Dan Immergluck, Associate Professor, City and Regional Planning, Georgia Institute of Technology. The author thanks Ellen Seidman and Alex Schwartz for comments on an earlier draft of this article. All errors, omissions and opinions remain solely the author's responsibility.

Endnotes

[1] For example, see M. Pinsky, N. Andrews, and P. Weech, The Economic Crisis and Community Development Finance: An Industry Assessment, June 2009 Working Paper 2009-05, Federal Reserve Bank of San Francisco Community Development Investment Center; and D. Immergluck, "The Foreclosure Crisis, Foreclosed Properties, and Federal Policy: Some Implications for Housing and Community Development Planning," Journal of the American Planning Association, 75(4), August, 2009.

[2] James B. Lockhart, The Roles of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks in Stabilizing the Mortgage Market, Presentation to the National Association of Real Estate Editors, June 18, 2009.

[3] U.S. Department of Housing and Urban Development, FHA Outlook, June 1-15, 2009.

[4] The term "new normal" has been used to describe expectations of various systemic and substantial shifts in the long-term nature of financial markets or submarkets after the crisis, including by Mark Pinsky, "The New Normal: The Extraordinary Future of Opportunity Markets," in The Economic Crisis and Community Development Finance: An Industry Assessment, June 2009 Working Paper 2009-05, Federal Reserve Bank of San Francisco Community Development Investment Center; and Mohamed El-Erian, "A New Normal," PIMCO Secular Outlook, May 2009. The term has been previously applied to systemic shifts in areas such as climate activity and perceived likelihoods of terrorist incidents.

Transportation Costs Tip the Affordable Housing Equation

WHETHER YOU BUY OR RENT, HOUSING NEAR A BUSY URBAN JOB CENTER IS GENERALLY EXPENSIVE IN MOST AREAS. THAT'S ONE REASON SO MANY AMERICANS CHOOSE TO LIVE IN THE SUBURBS: MORE LAND, MORE HOUSE, LESS COST.

It seems like an obvious call, right? The farther you live from the center of town, the closer you can come to affording your dream home. Maybe not. Recent research is challenging this conventional thinking.

The Center for Neighborhood Technology (CNT) has created a new tool to gauge the true affordability of housing by considering not only the price of a home or an apartment, but also the transportation cost associated with living there. Using the "Housing and Transportation Affordability Index," researchers have discovered a potential financial challenge lurking behind that suburban dream house: the increased cost of transportation for commuting to job centers swallows up the money saved by choosing a home on the urban fringe. CNT is hoping its research will change federal, state, and local housing and transportation policies to account for the true costs of housing.

Challenging old assumptions about who commutes

A Brookings Institute study conducted by CNT in collaboration with the Center for Transit-Oriented Development uses the Index to look at housing affordability in various metropolitan regions. The first phase of the two-phase "Affordability Index" study was an in-depth analysis of the St. Paul-Minneapolis metropolitan region.

Surprisingly, the study found that transportation demand is not necessarily determined by household income and size. Previous assumptions supposed that larger, more affluent families owned more cars and drove further distances than smaller, less affluent families. However, CNT's research reveals that neighborhood characteristics are the dominant force influencing transportation demand, not household income or size. Density, walkability, availability of quality transit, and access to amenities like grocery stores, schools and employment centers strongly influence the number of cars owned by a family and the miles they drive, regardless of family size or income.

Perhaps this finding should not come as a surprise after all. It seems reasonable that living far from employment and shopping centers in neighborhoods without sidewalks and public transportation would make it necessary for each adult living in the household to own and drive a car. Therefore, those considering the cost of renting or buying a home should consider living in a "location-efficient" neighborhood that can reduce the cost of transportation and thus alter the affordability range of housing.

Unfortunately, standards currently used to calculate housing vouchers, Low Income Housing Tax Credits, and even most home loans do not account for these living costs. Individuals and families can be placed in houses they should be able to afford, but not necessarily into neighborhoods they can afford. CNT is working with the Urban Land Institute's Terwilliger Center for Workforce Housing to create an individual H+T calculator to address the issue. This web-based calculator will make it possible for prospective renters and homebuyers to enter an address to determine the transportation costs associated with living there.

Transportation costs alter affordability picture

The second phase of the Brookings study gauged the housing affordability of 52 metropolitan regions in the United States. Traditionally, a home is considered affordable if payments consume no more than 30 percent of a family's income. The new measure of affordability includes the cost of transportation. According to the Index, housing is affordable when housing and transportation payments together consume less than 48 percent of a family's income.

Adding transportation costs to the calculation dramatically shifts the affordability landscape. Map 1 and Map 2 capture the significant impact of the new system for assessing housing affordability in the Atlanta metropolitan region. Map 1 shows the traditional affordability scale, based solely on housing prices. Map 2, on the other hand, indicates affordability when transportation costs are added to housing costs. The yellow shaded areas represent neighborhoods that are affordable, whereas the blue shaded areas show neighborhoods that exceed the affordability ceiling.

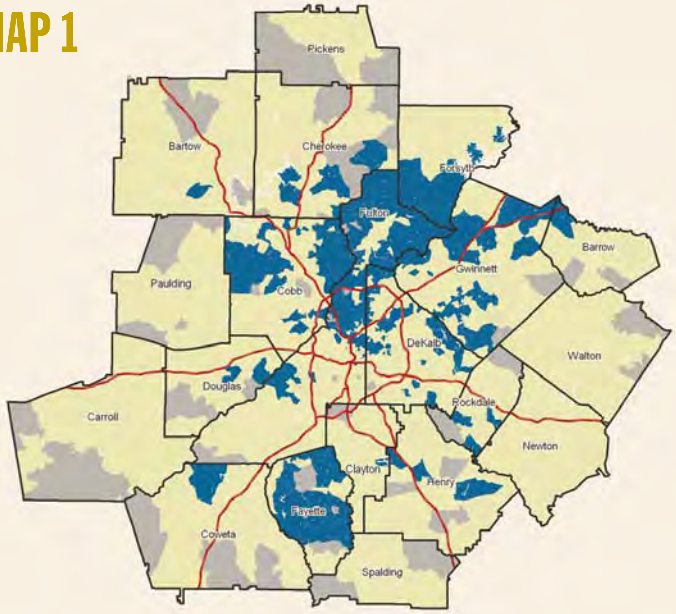
The Atlanta Metro counties most affected by transportation costs are also those that have seen the greatest spike in population over the last few years. Henry (southeast of Atlanta), Douglas (west of Atlanta), and Rockdale (east of Atlanta) counties grew faster than other counties during the last decade (ARC Regional Snapshot 2007). Map 1 illustrates why. By using the "drive until you qualify" approach to finding an affordable home, these three counties all appeared to be relatively affordable. But once transportation costs are considered, that affordability largely disappears, as exhibited in Map 2.

Climbing gas costs add to burden

If neighborhoods are designed largely for automobile traffic without public transit as an option, the transportation premium associated with living in these neighborhoods becomes highly dependent on gasoline prices. Over the last eight years, beginning in 2000, gasoline prices have risen markedly, shifting a drastic cost burden to those who rely on daily automobile travel. Map 3 and Map 4 show the stark

Mapping Affordability in the Atlanta Metro

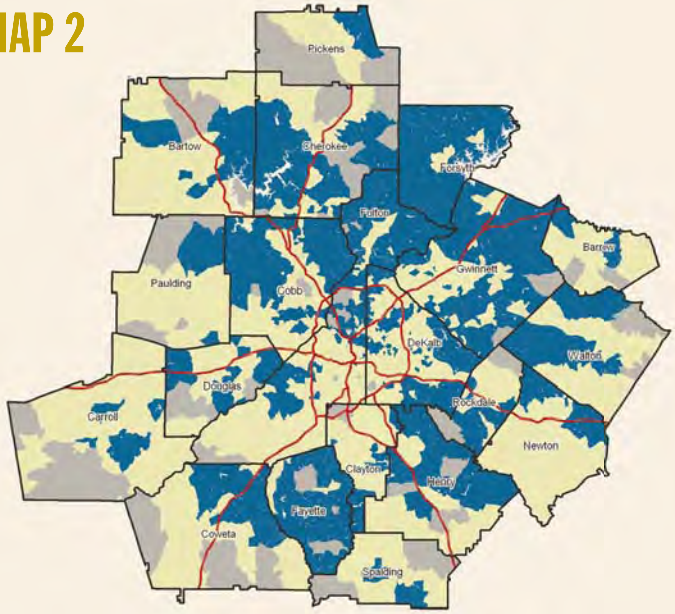
MAP 1



Affordability Measured by Housing Costs as Percent of Income

- Data not available
- Less than 30% of Area Median Income (AMI) Allocated to Housing
- 30% or Greater of AMI Allocated to Housing

MAP 2



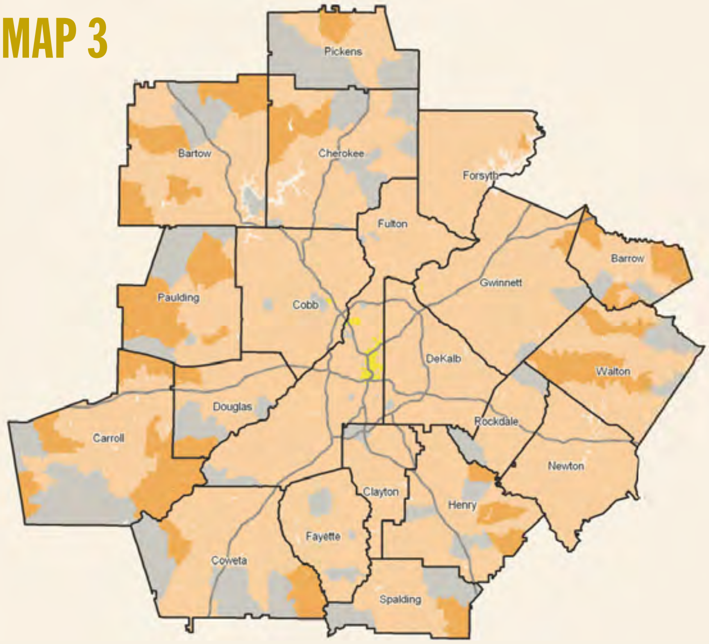
Affordability Measured by Housing and Transportation Costs as Percent of Income

- Data not available
- Less than 48% of AMI Allocated to Housing and Transportation
- 48% or Greater of AMI Allocated to Housing and Transportation

Source: Center for Neighborhood Technology, Chicago, IL.

Rising Gas Prices Affect Affordability

MAP 3

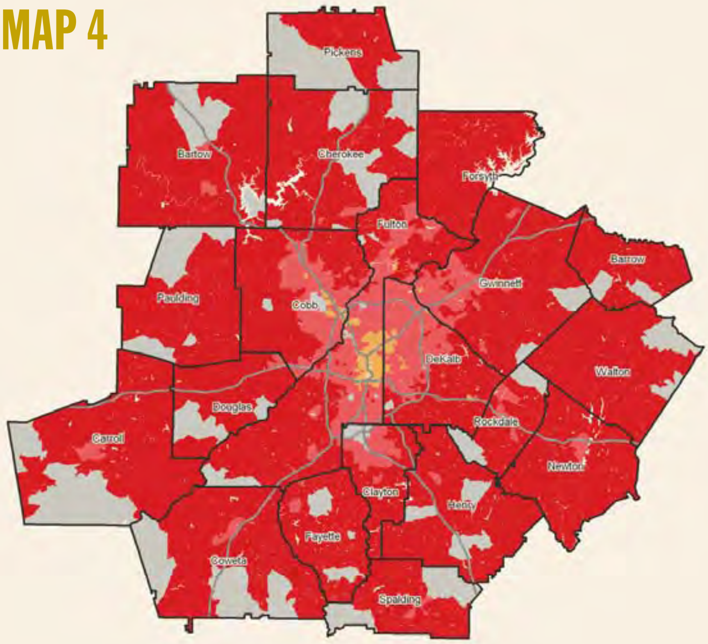


Average Annual Household Gasoline Expenditures - 2000

- Data not available
- Less than $900/Year
- $900 to $1,800/Year
- $1,800 to $2,700/Year

Fuel efficiency is based on 20.3 mpg.

MAP 4



Average Annual Household Gasoline Expenditures - 2008

- Data not available
- $900 to $1,800/Year
- $1,800 to $2,700/Year
- $2,700 to $3,600/Year
- $3,600 or Greater/Year

Fuel efficiency is based on 20.3 mpg.

Source: Center for Neighborhood Technology, Chicago, IL.

contrast between transportation costs faced by Atlanta drivers in 2000 as compared with 2008.

Even though gasoline prices have dipped recently, they are expected to continue rising over the next 5 to 20 years. In 2000, no county in the metro had average gas costs exceeding $2700 per year, with most under $1800. As the 2008 map shows, average gas expenses per household topped $2700 for the majority of counties in the metro, with many exceeding $3600 annually.

Getting policymakers on board

Moving forward, CNT plans to expand its work with the help of funds from the Rockerfeller Foundation to analyze 337 of the largest U.S. metro areas. Further research will determine whether the relationship among factors such as location, density, city form and transportation costs holds for small cities as well as large ones. Maria Choca Urban, program director of CNT, hopes these findings will influence the next federal transportation bill. A more level playing field would make it possible for transit, walking and bicycling infrastructure to compete with roads and highways for capital funds.

The good news is that policymakers are paying attention to CNT's work and even beginning to act. In March, HUD Secretary Shaun Donavan and DOT Secretary Ray LaHood announced a new joint entity to coordinate housing and transportation planning and investment. In June, the U.S. Environmental Protection Agency came onboard.

This new integrated approach to understanding housing affordability may also have implications for the lending community, which is closely examining risk and the long-term sustainability of a borrower's ability to make mortgage payments. With many expecting continued volatility in energy prices, both location efficiency and home-energy-use efficiency may become increasingly important considerations. ■

This article was written by Jared Yarsevich, research assistant in the Atlanta Fed's community affairs division.

USDA Program Opens Doors for Rural Homebuyers

ACCESS TO AFFORDABLE FINANCING HAS LONG BEEN A BARRIER FOR LOWER-INCOME RURAL HOMEBUYERS. MANY LACK THE SAVINGS REQUIRED FOR A CONVENTIONAL MORTGAGE, AND THERE ARE FEW OPTIONS FOR DOWN PAYMENT ASSISTANCE IN RURAL COMMUNITIES.

Tammy Gilbert and her daughter held an open house to tell friends and neighbors about USDA homeownership programs in Middle Tennessee.

In addition, poor credit scores and limited access to credit counseling and homebuyer education prevent some rural homebuyers from purchasing a home.

Affordable financing options have declined nationally over the last two years as banks tightened their credit standards in response to the foreclosure crisis. For those who lack significant cash reserves or have impaired credit, few options are available. However, in rural communities throughout the Fed's Sixth District and nationwide, homeownership can still be a reality for lower-income homebuyers thanks to the U.S. Department of Agriculture (USDA)'s Rural Development Guaranteed Rural Housing Loan Program.

USDA program grows, especially in the Sixth District

Interest in the USDA Guaranteed Loan Program has intensified since 2006. The Agency's primary tool for encouraging homeownership in rural areas, the Rural Development Section 502 Homeownership Loan program, offers both direct loans and the Guaranteed Loan Program. The direct loan program has been quite effective for serving the lowest income homebuyers in rural communities, but the Guaranteed Loan Program has seen the biggest increase in funding over the past several years.

Though the nearly $7 billion in loans guaranteed by the USDA in 2008 pales in comparison to $102 billion guaranteed by the Federal Housing Administration (FHA), the volume of loans originated through the Guaranteed Loan Program nationally has more than doubled since 2006.

In the Fed's Sixth District, the program's growth has outpaced its expansion in the nation as a whole. Florida, Tennessee, Mississippi and Louisiana all rank among the top 10 states for Guaranteed Loan production. According to the Directors of Housing Programs for Rural Development in Tennessee and Florida, loan production has already doubled in fiscal year 2009 compared with the same time period in 2008, an indication that the Guaranteed Loan Program is still gaining ground. The program's recent advance seems largely attributable to the disappearance of competition from alternative mortgage financing companies.

Guaranteed Rural Housing Loan Program Production in the Sixth District: 2006-2008				
	2006	2007	2008	% Change 2006-2008
Florida	$80,670,263	$111,608,148	$290,670,418	260%
Georgia	$45,494,229	$54,866,239	$151,987,521	234%
Alabama	$74,548,946	$67,608,249	$142,754,996	91%
Louisiana	$105,462,629	$181,892,640	$443,731,326	321%
Mississippi	$65,187,145	$149,648,624	$291,822,167	348%
Tennessee	$80,670,263	$140,688,133	$234,602,458	82%
Total Sixth District States	$500,089,834	$706,312,033	$1,555,568,886	211%
US	$3,074,685,563	$3,663,597,113	$6,979,700,876	127%

Source: USDA Rural Development 2008 Progress Report

How the Guaranteed Loan Program works

When the subprime market was in full swing, mortgage programs offered by government agencies like USDA or FHA were considered too burdensome because of loan processing requirements. Now, however, lenders and brokers are flocking to these affordable options. The Guaranteed Loan Program offers the last "No Money Down" mortgage available in rural communities, where tight credit standards, loss of financing products for credit-impaired borrowers and the absence of 100-percent financing products are thwarting many potential homebuyers.

Recent moves by Congress to ban the practice of seller-financed down payment and closing cost assistance left those lacking cash reserves with still fewer options. The Guaranteed Loan Program has not been affected by these restrictions, however, so sellers can help cover closing costs for homebuyers using this program. Homebuyers using the Guaranteed Loan Program can also roll the 2 percent guarantee fee charged by the USDA into their loan amount, so they can actually finance up to 102 percent of the appraised house value.

The fact that Private Mortgage Insurance (PMI) is not required makes the Guaranteed Loan program even more affordable. Conventional lenders including FHA typically require homebuyers to pay monthly mortgage insurance if more than 80 percent of the house price is financed. Since homebuyers using the Guaranteed Loan Program are not required to purchase PMI, their monthly housing payments are significantly lower.

Eligibility guidelines for the Guaranteed Loan Program require borrowers to have an income less than 115 percent of the county median. They must also purchase a home in a qualified rural area—generally a town or community with no more than 20,000 residents. Interestingly, however, some communities near urban centers qualify. For example, some exurban areas, such as those in central Florida that saw the most dramatic growth during the recent housing boom, are eligible for Guaranteed Loan Program financing.

Qualified private lenders underwrite the mortgages through the Guaranteed Loan Program. To assist the lenders and ensure consistent underwriting, USDA has developed the Guaranteed Underwriting System, "GUS," a software program that is available at no cost to the lender. This streamlined system makes it easier for both lenders and the USDA to operate the loan program efficiently. Tennessee was a pilot state for GUS, and currently it is used to process 80 percent of the state's Guaranteed Loan Program loan requests. As a result of the successful test-run, GUS is now being implemented in other states as well.

To further safeguard the underwriting process, all loan applications, including appraisals, are reviewed for approval by the Rural Development State Housing Programs office. Consistency in underwriting standards and review are key for ensuring the Guaranteed Loan Program's performance.

A guarantee covers up to 90 percent of the approved loan value, and USDA loans are eligible for sale to the secondary market. The secondary market for these loans is still strong due to the low risk associated with this product and the USDA's strong track record with the Guaranteed Loan Program.

Mitigating the risks of 100 percent financing

Given the well-documented problems associated with subprime mortgage products and 100 percent financing, why does the USDA continue to offer no-money-down mortgage financing, particularly to lower-income borrowers and those who appear to pose a higher credit risk? In response to these concerns, the USDA uses several strategies to mitigate the perceived risks of default by Guaranteed Loan Program borrowers.

First, the Guaranteed Loan Program has historically followed conservative, sound underwriting standards. For example, the ratio of housing cost to income cannot exceed 29 percent and the total debt ratio cannot exceed 41 percent. These ratios are more stringent than those set in many of the products that led to the mortgage crisis. In addition, interest rates for the Guaranteed Loan must be fixed for the entire 30-year term of the note. This measure eliminates the risks associated with interest-only or adjustable-rate loans.

Second, the use of the guaranteed underwriting system and centralized loan review also appear to lower delinquency rates and diminish the overall risk of the Guaranteed Loan Program. In 2008, according to the USDA, the delinquency rate for the Guaranteed Loan program was 11.4 percent and 1.4 percent of the loans went into foreclosure. While the delinquency and foreclosure rates for this program were higher than the rates for prime mortgages (6.6 percent delinquency and 1.5 percent foreclosure), the USDA program performed significantly better than subprime loans (35.1 percent delinquency and 9.8 percent foreclosure), according to Lender Processing Services Inc. Applied Analytics data for the same period.

Finally, lenders participating in the Guaranteed Loan Program receive obligatory training and ongoing assistance from USDA.

While USDA's underwriting criteria should help mitigate the risk of default associated with the Guaranteed Loan Program, questions persist about offering a 100 percent mortgage product in certain areas. In most rural communities, where housing prices are relatively stable, 100 percent mortgage financing can make it possible for lower-income individuals to build wealth through homeownership if there is even slight appreciation in their home value. However in many communities, including some now eligible for the Guaranteed Loan Program, housing prices have not yet stabilized and could still decline. Homebuyers in these communities who acquire a 100 percent mortgage still run the risk of finding they owe more than the value of the home, thus forfeiting the wealth-building and tax benefits of homeownership. Homebuyers and lenders will have to consider carefully the market conditions and the potential risks associated with a 100 percent mortgage product in certain markets.

Current and future prospects for the Guaranteed Loan Program

The Guaranteed Loan Program is attracting some new partners in addition to continuing to serve its core mission of expanding homeownership in rural communities. For instance, in central Florida, builders and realtors have started using the USDA program to market excess housing inventory in overbuilt exurban communities. Recent changes in the USDA income qualification guidelines are expanding the program's reach to include higher-income families who might be likely to purchase homes in these communities. Some speculate that the availability of USDA mortgages in these areas may accelerate their recovery from the recent housing downturn.

Though more debate is likely about whether the USDA program should continue to provide such flexible financing, Tennessee's Rural Development Housing Program Director, Don Harris, doesn't anticipate significant changes to the core program. He points to the Guaranteed Loan Program's proven track record, its strong lending partners and its success in fulfilling the goal of providing affordable financing options for homebuyers in rural communities. "For some families, the no-money-down component of the Guaranteed Loan Program is the difference that allows them to successfully purchase a home," according to Mr. Harris. "The Guaranteed Loan Program is an example of the type of program that should be considered by lenders who want to promote responsible affordable housing opportunities in their rural communities." ■

This article was written by Jessica LeVeen Farr, senior regional community development manager in the Atlanta Fed's Nashville Branch.

The Rough Road to Rebuilding:

Interview with Milton Bailey, President of Louisiana Housing Finance Agency

Milton Bailey

Milton Bailey's "road home" since taking over the presidency of the Louisiana Housing Finance Agency (LHFA) in 2006 has not been an easy one. He came to Louisiana from Washington, D.C., where he served as the executive director of the District of Columbia Housing Finance Agency from 1994 to 1999 and again from 2001 until 2006. He assumed the reins of LHFA a little before the first anniversary of Hurricanes Katrina and Rita. In 2005, these storms destroyed more than 200,000 homes and instantly exacerbated Louisiana's pre-existing housing crisis. Then, in 2008, Hurricanes Gustav and Ike arrived, damaging an additional 150,000 to 300,000 homes. Nancy Montoya, senior regional community development manager for the Federal Reserve Bank of Atlanta, spoke with Mr. Bailey to get his perspective on housing recovery for Louisiana, the current state of the housing market, and other pressing issues.

MONTOYA: What conditions are affecting the retention and development of affordable housing locally and nationally?

BAILEY: I'll begin at home and then expand nationally. There's some adverse effect in the capital market: obviously, there's less liquidity for developers and less access to credit for homebuyers to develop and purchase housing. The lack of equity for developers, lack of credit for homebuyers, the overextension of the consumer's debt capacity, and high default rates for multifamily and single family housing all factor into a bleak outlook. Money is not flowing through the market as well as it should and is certainly not trickling down to the end user . . . . To that I would add that high incidences of NIMBYism, the "Not In My Back Yard" attitude toward affordable housing, has created challenges.

MONTOYA: Are there any bright spots in how we're addressing this issue as a community or as affordable housing developers?

BAILEY: Yes, there are. Remember that in the historical context "workforce housing" was really public housing for Louisiana's industry. Aside from corporate housing, there was no effort to really create a different kind of housing other than public housing for persons and families of lesser means. Housing was never put on par with economic development and business attraction and retention. So the bright side is that the amount of development and advocacy that has occurred recently is going to change that dynamic over time. Once affordable units are managed in a manner that allows those facilities to operate as public assets instead of public liabilities, we will then see a change in attitude as to the placement of those assets within stable communities.

MONTOYA: Are lessons learned in other parts of the country being applied in Louisiana?

BAILEY: I see hope in the economic integration of low-income communities through the tools and incentives to transition renters into homeowners, wealth-building opportunities, and "green" and energy-saving elements. The importation of best practices across the spectrum of housing and economic development, as well as the support mechanisms to ensure that those investments are sustained, are what's making it work. You've seen tax credits for energy efficiency, which means greater efficiency in how one manages his or her home as compared to 25 years ago. Creating livable and sustainable environments is a must . . . . For an individual to really take pride in their community, they have to have a home to take pride in. Quality of construction is foremost, especially when it minimizes the differences between market rate and affordable housing.

MONTOYA: What has been the impact of the "green building movement" on affordable housing?

BAILEY: Initially, after the storm, green elements increased the cost of building housing. When you have a disaster many people are going to be without income for extended periods of time. So, if you're already dealing from an income base that is depressed, then adding the green element to redeveloping affordable housing means that you are, in effect, pricing rents out of the affordable range of the people that you're trying to serve. I think it's very important that . . . we provide incentives to manufacturing facilities and concerns that produce the inventory of "green elements" so . . . those assets will already be in place and in sufficient quantity so as to have a "de minimus" effect on rents.

MONTOYA: What else could we be improving upon in the Low Income Housing Tax Credit industry?

BAILEY: Well, most things we're doing well. We're probably doing more well than not. However, Fannie and Freddie's lost focus on what they were created to do has taken a lot of equity out of the game, which is about 40 percent of the equity market. That's a sizeable chunk of equity drain. Their slowness to get back into the game has hamstrung us considerably. So creating a fund that will replace Fannie and Freddie's traditional 40 percent market share would be highly desirable. The other issue is how to boost a 9 percent tax credit to encourage high-income corporations to invest in workforce housing. I say that because, if you use Louisiana as an example, while we are oil-rich, a lot of those profits are not being channeled back into the production of affordable housing in favor of the oil companies investing in higher yielding historic tax credits. I would also go so far to say that we need to take a hard look at CRA [the Community Reinvestment Act] with a view towards fine-tuning some of the regulatory elements that ensure that investors are investing in housing development more so than was invested before. I think that we're headed in the right direction regarding capital market reforms, although the devil is in the details. Hopefully those reforms will prevent the type of economic collapse that we have today. We'll have to wait and see how regulatory mechanisms are going to work to the benefit of people who don't have the resources to weather the storm on their own. ■

Mississippi

GROWING A GREENER MISSISSIPPI

A new statewide competition launched by The Mississippi Home Corporation (MHC) will reward builders and developers who create the best affordable green housing. "Growing a Greener Mississippi," which will offer $100,000 in prize money for the top designs, aims to make green housing more widely available and increase demand for energy-saving features.

"Green housing is affordable housing," said Bill Sones, Chairman of MHC's Board of Directors. "It decreases utility and maintenance costs through increased efficiency, thereby helping homeowners save money. This competition will result in green homes for Mississippians and reward contestants for adding value to the homes they build," he continued.

The competition will award $50,000 for first place, $30,000 for second place and $20,000 for third place. An independent panel of five judges will determine the winners.

Homes built for the Growing a Greener Mississippi contest must meet the National Association of Home Builders (NAHB) guidelines for green home building at the "bronze" level or above. NAHB guidelines focus on energy-efficient appliances, architecture, and building methods, as well as environmentally friendly building materials.

"The NAHB model uses two complimentary principles to determine what makes a home green: efficiency and environmental impact," explained David Smith, chairman of the Jackson Home Builders Association Green Building Committee. "NAHB green homes use energy-efficient design and building practices to lower utility costs while using more renewable and durable building materials," he explained.

To qualify for the competition, homes must either sell for less than $175,000 or be eligible for the Mississippi's Housing Tax Credit program.

During construction, competing homes will be inspected by an NAHB Certified Verifier, who will ensure green measures are implemented properly. Homebuyers will also be taught how to use the energy-efficient features of the home.

"With any green home, education is essential," said American Society of Home Inspectors-certified Gary N. Smith, with SafeHome Inspections. "A builder can install energy-efficient equipment, appliances and design techniques, I can inspect and verify the construction, but if homeowner education is not included in the process, the home will not perform to its full potential," he added.

The Mississippi Home Corporation was created by the State in 1989 to serve as the State's Housing Finance Agency. In that capacity, MHC administers the Mortgage Revenue Bond program and the Housing Tax Credit program, among others. MHC's mission is to enhance Mississippi's long-term economic viability by financing safe, decent, affordable housing and helping working families build wealth. ■

This article was written by Nancy Montoya, senior regional community development manager of the Federal Reserve Bank of Atlanta.

For more information:
To participate in the Growing a Greener Mississippi competition contact MHC at 800-544-6960 or visit the website at www.mshc.com.

Georgia

NEW LIFE FOR FORECLOSED PROPERTIES

Rehabilitation of foreclosed or abandoned property by local governments, nonprofits or housing providers is an important step on the road to neighborhood recovery in areas hard-hit by foreclosure. Financial institutions play a significant role in this process, and a new organization, the National Community Stabilization Trust, is designed to smooth the way.

Working directly with financial institutions

Collaborations among nonprofits, financial institutions and civic-minded volunteers can help bring neighborhoods back to life. The Initiative for Affordable Housing is a private nonprofit agency in Atlanta, Georgia, founded in 1990 by two churches with long histories of social involvement in the local community. Executive Director Lisa Wise is partnering with the Chase/Washington Mutual/EMC Real Estate Owned Gifting and Discounted Sales Program to refurbish three properties in an area of DeKalb County heavily affected by foreclosures.

A group of volunteers from the Federal Reserve Bank of Atlanta rehabbed one of the properties, and volunteers from JP Morgan Chase, Emory University and Agnes Scott College are completing work on the remaining two.

"The total rehab cost for the three properties isn't expected to exceed $15,000," says Beverly Dabney, first vice president and senior community affairs relationship manager of Washington Mutual (WaMu)/JP Morgan Chase.

Like similar programs at other financial institutions, the Chase/WaMu/EMC program works with nonprofits and government entities to donate or sell real estate owned (REO) properties to help areas with high foreclosure rates.

The National Community Stabilization Trust eases the way

The National Community Stabilization Trust (NCST) is a collaboration of five leading community development organizations—Enterprise Community Partners, Housing Partnership Network, Local Initiatives Support Cooperation, NeighborWorks America, National Council of La Raza and the National Urban League. The organization facilitates the transfer of foreclosed and abandoned properties from financial institutions nationwide to local housing organizations. The goal is to promote productive reuse of property and foster neighborhood stability.

The NCST provides two types of services: First, it acts as a central point of contact with the financial institution that holds the property. It establishes a streamlined process for identifying, inspecting and evaluating offers from the seller. And it makes it possible for prospective government and nonprofit buyers to acquire the property before it goes to market.

Second, it assists with the short- and intermediate-term financing needs of participants through an affordable, revolving line of credit. This allows for better leverage of Neighborhood Stabilization Program funds, as well as provides more flexible financing for stabilization activities.

The NCST is working in 100 communities in 35 states. In places where NCST is not operating, local recovery efforts are forging their own partnerships with lenders and servicers that hold REO properties, much like the Initiative for Affordable Housing in Georgia has done. ■

This article was written by Sibyl Slade, senior regional community development manager of the Federal Reserve Bank of Atlanta.

For more information:
Chase/WaMu/EMC REO Gifting and Discounted Sales Program, Yves M. Mombeleur, vice president/program manager, yves.mombeleur@wamu.net or 817.581.6513. **Chase's REO listing**, http://mortgage.chase.com/pages/other/co_properties_landing.jsp. **WaMu's REO listing**, www.wamuproperties.com, **National Community Stabilization Trust**, http://www.stabilizationtrust.com/

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