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A Blueprint for American Prosperity

By Dede Myers, Vice President and Community Affairs Officer

Bruce Katz is a man with a vision – and a plan – and if he's right, the United States will change the way it competes in the new global economy. Katz, who leads the Metropolitan Policy Program at the Brookings Institution, opened the Federal Reserve Bank of Philadelphia's third conference on reinventing older communities with a challenge: stop thinking of our neighbors as the competition; join forces at the metropolitan level to compete against China, India, Brazil, and Russia; and enlist our federal government as an active participant in the process. Katz thinks we shouldn't limit our viability in a global economy by thinking small. One town competing with another is not the point. Our neighbors' strengths and problems are ours as well, and we need to work together to make ourselves more competitive.

Katz reported that while we may think of ourselves as a nation of 50 states and countless individual counties and towns, he views the United States as 363 metropolitan areas. The top 100 metro areas are the economic engine of this country, home to almost two-thirds of its total population, and producer of three-quarters of its gross domestic product, although comprising only 12 percent of the land area. These same metro areas are the drivers of the world economy, but he believes our competitive advantage is shrinking. Countries like China and India are becoming increasingly dominant players and, Katz



Philadelphia Mayor Michael A. Nutter and Bruce Katz, Vice President and Director, Metropolitan Policy Program, The Brookings Institution

believes, if the individual parts of U.S. metropolitan areas do not start competing together (rather than against each other) we will have much to lose. He also believes the federal government has to be a partner in making this change.

Katz cited the Chicago metropolitan area as an example of the complexity of thinking the old way, i.e., along municipal boundaries. The Chicago area comprises one large city, six satellite cities, and 544 municipalities in 14 counties in three states. As long as governments ignore the reality that economic development and growth are regional, not municipality specific, we will be forever limited.

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Send comments and suggestions to Keith L. Rolland at (215) 574-6569 or keith.rolland@phil.frb.org. Send address changes and requests for subscriptions or additional copies to Kenyatta Burney at (215) 574-6037 or kenyatta.burney@phil.frb.org.

COMMUNITY AFFAIRS DEPARTMENT

Kenyatta Burney
Senior Staff Assistant
(215) 574-6037
kenyatta.burney@phil.frb.org

Jeri Cohen-Bauman
Secretary
(215) 574-6458
jeri.cohen-bauman@phil.frb.org

Christy Chung Hevener
Consumer Specialist
(215) 574-6461
christy.hevener@phil.frb.org

Andrew T. Hill, Ph.D.
Economic Education Advisor
(215) 574-4392
andrew.hill@phil.frb.org

Amy B. Lempert
Community Development Advisor and Manager
(215) 574-6570
amy.lempert@phil.frb.org

Erin Mierzwa
Community Development Specialist
(215) 574-6641
erin.mierzwa@phil.frb.org

Dede Myers
Vice President and Community Affairs Officer
(215) 574-6482
dede.myers@phil.frb.org

Harriet Newburger, Ph.D.
Community Development Research Advisor
(215) 574-3819
harriet.newburger@phil.frb.org

Keith L. Rolland
Community Development Advisor
(215) 574-6569
keith.rolland@phil.frb.org

Marvin M. Smith, Ph.D.
Community Development Research Advisor
(215) 574-6393
marty.smith@phil.frb.org

John J. Wackes
Community Development Specialist
(215) 574-3810
john.j.wackes@phil.frb.org

Todd Zartman
Economic Education Specialist
(215) 574-6457
todd.zartman@phil.frb.org

Message from the Community Affairs Officer

At the end of March of this year, the Federal Reserve Bank of Philadelphia hosted its third biennial conference on reinventing older communities. We had great speakers, an engaged audience, and terrific cosponsors, all of whom share our interest in rebuilding big and small towns that are central to our metropolitan areas. The conference, which drew more than 525 people – including speakers – from 29 states, was entitled **Reinventing Older Communities: How Does Place Matter?**

We could not have done it without the help of our cosponsors: the William Penn Foundation, the Brookings Institution's Metropolitan Policy Program, the University of Pennsylvania's Institute for Urban Research (Penn IUR), the Local Initiatives Support Corporation, The Reinvestment Fund, the Federal Home Loan Bank of Pittsburgh, the New York and Cleveland Federal Reserve Banks, the George Gund Foundation, the Heinz Endowments, the Surdna Foundation, the National Housing Institute, the Delaware Valley Regional Planning Commission, the Pennsylvania Planning Association, 10,000 Friends of Pennsylvania, and the German Marshall Fund of the United States. Still others, such as Isles Inc., PlanSmartNJ, and the Chicago and Richmond Feds, helped by sending the invitation brochure to their mailing lists. All of this help enabled us to reach a diverse group of people.

This year the two-and-a-half-day conference had three additional features. We added a research track with the help of Penn's IUR that included nationally recognized researchers who have analyzed how education, social networks, crime, and health are influenced by the place in which we live. The sessions were well attended, and the researchers agreed to write a

chapter for a book that will be published by Penn Press.

The second new feature was continuing education credits for planners. While the audience is typically a mix of community developers, bankers, and government officials, many of the issues discussed are important to city and town planners. Recognizing that point, the American Planning Association, at the request of the Pennsylvania Planning Association, agreed to provide credits to planners for most of the conference sessions.

A third new feature was a partnership with the German Marshall Fund of the United States that enabled the audience to get a European perspective on reinventing cities. European cities face many of the same challenges as their American counterparts, and some have made remarkable strides toward developing a sense of place while strengthening their economic competitiveness.

Now, if you were not able to attend the conference, even for a short period of time, we have tried to describe the highlights in this issue of *Cascade*. If this is not enough, please go to www.philadelphiafed.org/cca/conferences.html, where you will find the speakers' presentations. In a few cases, we also have MP3 recordings of the plenary sessions. You will enjoy first hand the words of Bruce Katz of the Brookings Institution, as well as Amy Gutmann, president of the University of Pennsylvania; Michael Nutter, mayor of Philadelphia; and Valentino Castellani, a former mayor of Turin, Italy, home of the 2006 Winter Olympics.

If you couldn't join us this year, I hope we will see you in 2010.



Mayors: Reinventing Begins with Planning

By Amy B. Lempert, Community Development Advisor and Manager

The idea that a city is part of a greater metropolitan area was embraced by the mayors and the municipal official who spoke at the plenary sessions of the conference.¹ Each understood how his city matters within its larger region. A common theme about reinventing these cities was the need to involve the community in actively planning to enhance assets and minimize liabilities. Each of the cities is in a different stage of reinventing itself, but all have a shared experience of decades of industrial decline.

Turin, Italy; Valentino Castellani, Former Mayor

The mayor of Turin for two terms, from 1993 to 2001, Castellani presented the city as one that has reinvented itself many times during its 2,000-year history. Turin, which has a current population of approximately 900,000, has had significant ups and downs in the last 150 years as it lost its status as capital of Italy, became an automotive capital, lost some 80,000 manufacturing jobs, and hosted the 2006 winter Olympic Games. Most recently, Turin has been the beneficiary of new public and private investment that aims at diversifying the city's economic base and maintaining the euphoria created by hosting the Olympics. Castellani said



Valentino Castellani

that key factors that have enabled Turin to reinvent itself are the city's cultural heritage, a long history of planning, and the fact that it is a key transportation node with connections to western and eastern Europe.

Stamford, Connecticut; Mayor Dannel P. Malloy

Currently in his 13th year as mayor of Stamford, Connecticut, Malloy is keenly aware of the physical assets of his city. He noted that Stamford, a city of approximately 125,000 residents, is the fastest growing city in New England. Stamford's location on Long Island Sound, 30 miles from New York City, is a major factor in the city's transformation. Malloy also credits a conscious planning effort and clear vision of what the city wants to be. In the face of industrial decline a half-century ago and with good commuter and national rail service² and a major interstate highway (I-95) running through it, Stamford focused on office development. To prevent sprawl and reinforce its effort to create a vibrant 24-hour

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An urban renewal project in Turin, Italy, has renovated the north-south rail line, moved half of it underground, and created a wide boulevard on the surface. The boulevard, known as La Spina (the backbone), is lined with tall white light fixtures and can be seen in the background. In the foreground is a small park adjacent to the boulevard that contains a walk-through sculpture of a tree.



Completed in 1921, the Fiat Lingotto factory in Turin, known for its roof-top test track shown here, is a prominent example of modernist architecture. After Fiat closed the factory in 1982, architect Renzo Piano was chosen to transform the building. Today, Lingotto is a multifunctional complex containing a trade center, convention center, auditorium, art museum, 11-theater cinema complex, two hotels, shops, and offices. The exterior of the building remains as originally designed. The Olympic Arch is in the background. Lingotto is at the southernmost tip of La Spina.

¹ Valentino Castellani, a former mayor of Turin, Italy, and president of the Organizing Committee for the 2006 Olympic Games in Turin, spoke on Wednesday morning, addressing the topic "Rebuilding a Sense of Place in Older Industrial Cities." Mayor Dannel P. Malloy of Stamford, Conn., Mayor Jay Williams of Youngstown, Ohio, and Christopher Warren, chief of regional development of the city of Cleveland, participated on a panel Friday morning moderated by Mayor Michael A. Nutter of Philadelphia.

Urban Anchors Fuel Economic Growth and Civic Progress

By James L. Gardner, Special Assistant to the President, University of Pennsylvania

University of Pennsylvania President Amy Gutmann addressed the 2008 reinventing older communities conference on the evolving role that urban anchors, including large teaching and research universities, are playing in driving economic growth and civic progress in their communities.

She focused on three specific pathways for reinventing older communities: producing innovative scholarships that can be translated into effective policy; putting educational values into practice; and leveraging knowledge and other resources to foster economic development. “To realize our full potential,” Gutmann said, “Penn depends on the creative mingling of scholars, students, and ideas across all disciplines, backgrounds, and perspectives. For example, interdisciplinary research at Penn has helped policymakers address disparities in health, education, and economic mobility that have afflicted the urban underclass.”

Gutmann then described steps Penn has taken toward improving the life prospects of less advantaged



Amy Gutmann, President, University of Pennsylvania

citizens, beginning with measures to put a Penn education within reach of talented, aspiring students who otherwise could not afford to attend college. Penn now waives tuition for families making less than \$90,000 and pays the full freight for families making \$40,000 or less.

“In keeping with Bruce Katz’s recognition of the urgent need to strengthen the links between K-12 and higher education, Penn also has helped to improve the educational prospects of local school children in Philadelphia,” Gutmann said. “Our partnership with the Penn Alexander School has produced the highest performing racially diverse neighborhood K-8 public school in the city – and one of the best schools of its kind in the nation. Eighty-five percent of Penn Alexander eighth-grade graduates go on to selective magnet schools in Philadelphia that send high proportions of graduates to college.”

Gutmann then summarized some of the ways that Penn delivers a variety of innovative health services to our community, including:

- Clinical and preventive health care to Sayre High School students, their families, and other members of the West Philadelphia community at the school;
- Comprehensive dental treatment to West Philadelphia children, provided in a fully equipped mobile van known as PennSmiles.
- Integrated nursing, medical, and rehab care that allows elderly residents to continue living independently in their homes and saves the Commonwealth of Pennsylvania 15 percent to 20 percent in Medicaid reimbursement costs.

Gutmann devoted the rest of her talk to Penn’s economic impact on the city and region. She began by noting the sea change that universities have undergone since the 1950s. “When universities needed to grow back in the ‘50s and ‘60s,” she said, “they seldom took social or environmental consequences into account. Basically, they saw, they planned, and they flattened any obstacles in their path. That was the old-school way of campus planning. “Penn is new-school,” she continued. “We are an anchor that employs more than 24,000 people and generates almost \$7 billion for the Philadelphia economy through our purchases, capital investments, and research. We realize we can help build a stronger city and region best by partnering with the private and public sectors.”

Gutmann then described the university’s campus development plan to reinvent and transform a 24-acre property purchased from the U.S. Postal Service – “a dead and ugly parcel of land” – into beautiful Penn Park and a vibrant mixed-use neighborhood that forges seamless connections with Philadelphia and fuels progress throughout the region. Penn, Gutmann said, is boosting its housing stock for all students, adding recreational green space, and building state-of-the-art facilities for medicine, neuroscience, and nanotechnology.

Penn, according to Gutmann, ultimately wants to help reinvent Philadelphia by creating a new, mixed-use neighborhood “that extends William Penn’s original urban grid across the Schuylkill River, connects Penn and West Philadelphia to Center City, and transforms the riverfront itself into a source of civic pleasure and pride.”

The University of Pennsylvania is transforming a 24-acre property purchased from the U.S. Postal Service into Penn Park and a mixed-use neighborhood. A present-day view of the site is contrasted with a rendering of the completed project.



Gutmann added: “To pull this off, however, we have to remove what urban visionary Jane Jacobs called ‘the curse of the border vacuums,’ which creates dead zones for social interaction and commerce. Examples of borders include railroad tracks, expressways, rivers, surface parking lots, ugly old buildings, and uncultivated parcels of land.” Gutmann proceeded to show slides that contrasted several border vacuums as they appear today with transformations that will “create a mixed-use neighborhood with a steady flow of foot traffic and energy.”

Gutmann said: “Today’s warehouses become tomorrow’s laboratories, radio stations, restaurants, cafes, bars, bike shops, hair salons, performing arts venues, and apartments. Parking lots become playing fields and parks, increasing green space on our campus by 20 percent.” For example, the moribund site of the Philadelphia Civic Center across the street from the Hospital of the University of Pennsylvania and Children’s Hospital will be the site of an \$833 million state-of-the-art medical care

and research complex, beginning with the Perelman Center for Advanced

Medicine, which will begin offering advanced cancer and cardiac care later this year.

Gutmann stressed that all capital projects will meet the highest standards of energy conservation and environmental design. Penn also will heavily reuse stone and paving materials, choose native plants for landscaping, and provide for effective storm-water management.

Gutmann then discussed the jobs and entrepreneurial opportunities that Penn’s expansion will create for local residents. Penn already purchases tens of millions of dollars worth of products and services each year from local businesses. And it has awarded up to a quarter of all construction contracts to minority- and women-owned businesses while making sure that at least a quarter of all construction jobs go to minority and women workers.

Gutmann, a political philosopher, concluded her talk with a reflection on ties that bind urban universities to their home cities. “Town-gown rela-

tionships, like politics, are ultimately local,” she said. “They are shaped by specific histories, circumstances, and constraints. We can agree that large urban universities have good reasons to partner with their neighbors to boost educational capacity and improve the long-term health and prosperity of their neighbors.

“At our best, urban universities are more than large employers and major economic players. We are good citizens and neighbors, bound by our mission to pursue integrated knowledge and understanding for the sake of serving society, beginning with our own neighboring communities.

“A university such as Penn connects more than our scholarship to policy, more than theory to practice, and more than our campus to our city. Ultimately, we connect people to one another in the rewarding work of re-inventing our communities. Through our connections, we will replace border vacuums with lively neighborhoods. Through our connections, we will make our urban communities highly desirable places to study, live, work, and play. And through our connections, we will bring good, new life to this most glorious of human inventions – the city.”

How Can Foundations Change Urban Markets?

By Keith L. Rolland, Community Development Advisor

Leaders of two regional foundations who spoke at the reinventing older communities conference described their organizations' efforts to strengthen neighborhoods by pursuing market-based strategies, and a prominent urban developer explained that foundations could play a critical role in spurring urban development.

David T. Abbott, executive director of the George Gund Foundation in Cleveland, and Feather O. Houston, president of the William Penn Foundation (WPF) in Philadelphia, spoke on a panel with Richard D. Baron, chairman and CEO of McCormack Baron Salazar (MBS)¹ in St. Louis. Jeremy Nowak, president and CEO of The Reinvestment Fund (TRF) in Philadelphia, moderated the panel.

Abbott explained that the Gund Foundation has a regional focus on economic change and has been instrumental in organizing the Fund for Our Economic Future (FEF),² which promotes regional economic development in northeastern Ohio. The fund is trying to stimulate economic change by investing in areas such as bioscience development and entrepreneurialism, Abbott said. About half of the \$60 million raised through FEF has been disbursed, he added.

Most of the Gund Foundation's community development efforts are focused through Neighborhood

Progress,³ a nonprofit that seeks "market recovery" through investments in housing, safety, and schools in six Cleveland neighborhoods, Abbott said. The neighborhoods are neither the best nor the worst ones in Cleveland.

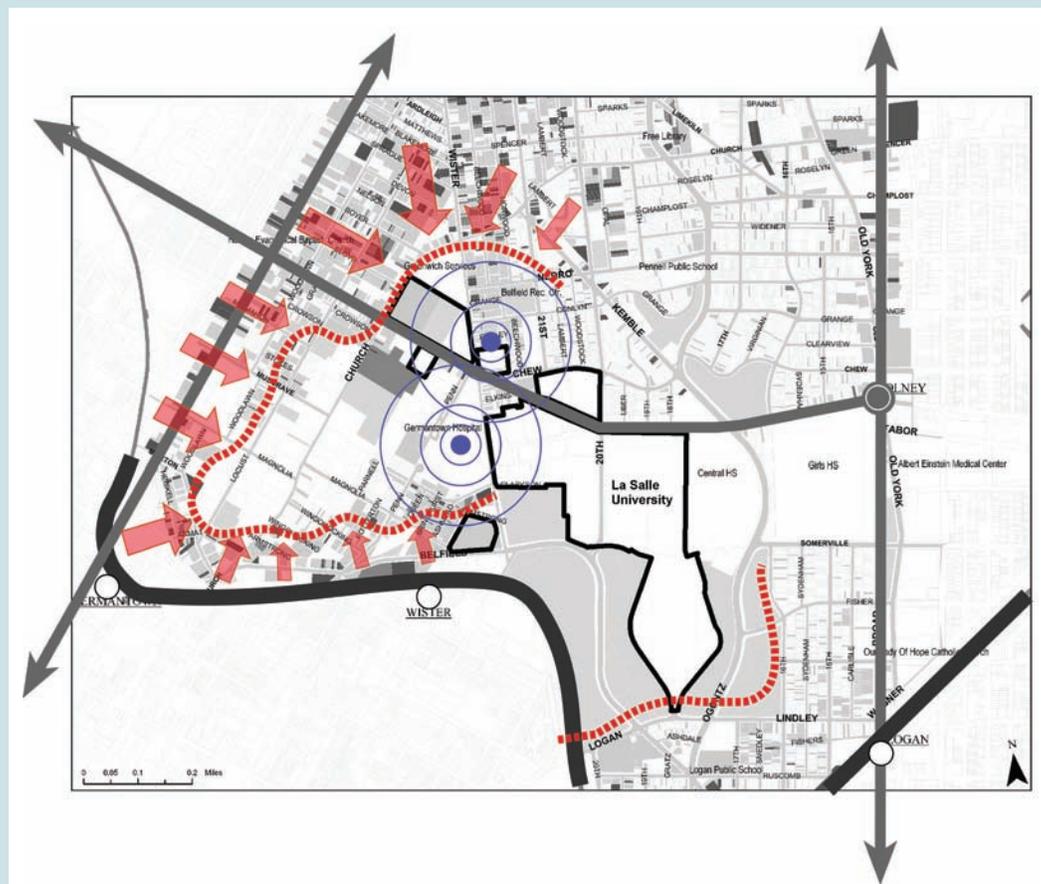
In addition, the Gund Foundation is trying to encourage real estate developers to learn from nonprofits that have expertise in sustainability, green space development, and public art. The foundation is funding Build-ing Cleveland by Design,⁴ which al-

¹ MBS's mission is to rebuild neighborhoods in central cities across the U.S. Since 1973, MBS has developed 124 projects in 33 cities; the projects include more than 13,895 housing units.

² FEF, formed in 2004 and chaired by Abbott, operates through grantmaking, research, and civic engagement. The fund has about 100 members, which are primarily foundations but membership also includes banks, other businesses, and universities. For information, go to www.futurefundneo.org.

³ For information, see www.neighborhoodprogress.org.

⁴ For information, see www.clevelandgbc.org/bydesign/index.html.



The William Penn Foundation (WPF) has been a major supporter of community investment in targeted neighborhoods throughout the region, providing strategic investments to support development. With WPF support, The Reinvestment Fund (TRF) has developed neighborhood plans with LaSalle University. The red arrows identify negative market forces and the blue circles identify strong investment opportunities. A new TRF-funded supermarket is planned in the top set of concentric circles.

Map courtesy of The Reinvestment Fund

lows nonprofits to help builders and developers design more eco-friendly buildings.

Abbott said that foundations often find involvement in real estate projects “uncomfortable,” but he encouraged these organizations to “step out of their comfort zone.” He invited nonprofits and others to tell foundations “how we can partner with you.”

Houstoun explained that WPF and some other foundations are following a market-based strategy in which their funding is intended “to trigger the kinds of investment that can actually turn a neighborhood around. It doesn’t mean we abandon needy neighborhoods; we think differently about what we can accomplish there.”

A market-based strategy may be able to turn around a city neighborhood that has anchor institutions and is only in the early stages of decline, whereas funding services for high-risk youth may make sense in the more deteriorated areas of the same city, she suggested. Sometimes foundations need to “speak truth to hope” and explain that some funding requests in distressed neighborhoods “aren’t going to turn the tide,” she said.

Both Abbott and Houstoun said that their respective foundations complement a market-based strategy with advocacy on national and state policies.

Baron, who has developed urban projects for the past four decades, observed that foundations lack “institutional memory” of what

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The George Gund Foundation at Work

The Gund Foundation supports community development in Cleveland primarily through a local intermediary, Neighborhood Progress Inc. (NPI), which is funding 14 community development corporations and has designated six areas for a strategic investment. The investment aims at restoring private markets, including real estate, in Cleveland neighborhoods that have undergone decline but show potential to recover. The photos are in two of the investment areas.



Photo courtesy of C. Rafalke

In the photo above, workers are landscaping a market-rate newly constructed house developed by NPI and the City of Cleveland. NPI owns and plans to renovate historic Saint Luke’s Hospital, which is shown in the background.



Photo courtesy of Julie VanWagonen

In this photo, a construction worker is shown amid 190 mixed-income units being built in a HOPE VI development.

The Federal Reserve System's Response to Subprime Mortgage Challenges

By Christy Chung Hevener, Consumer Specialist

The issue of rising foreclosures across the nation was addressed by Sandra F. Braunstein, director of the Division of Consumer and Community Affairs of the Federal Reserve System's Board of Governors, at the reinventing older communities conference. In light of high foreclosure rates, the Federal Reserve is using its full range of powers – supervising and regulating banking institutions, writing and enforcing regulations, and directing monetary policy to stabilize markets – to mitigate the current foreclosure crisis and to address issues of concern in mortgage lending that will help prevent a recurrence of the current situation.

Immediate Responses

The Federal Reserve has undertaken a number of initiatives – immediate, near-term, and long-term – in response to the foreclosure crisis. One immediate goal is to identify ways to assist delinquent borrowers and help them remain in their homes when possible. Toward this end, the Federal Reserve has engaged key industry participants to discuss responses to the current crisis and, along with other regulators, has issued guidance strongly urging lenders and servicers to assist borrowers by adopting a range of loss-mitigation options, including refinancing, loan modifications, forbearance, and short sales. In a recent speech, Federal Reserve Chairman Ben S. Bernanke proposed that lend-

ers could engage in principal write-downs under some circumstances, such as when homeowners owe more on their mortgages than their homes are worth, which may be less costly for lenders than foreclosure.¹

Through its community affairs offices at the Board and the 12 regional Banks, the Federal Reserve is collaborating with regulators, community groups, policy organizations, and public officials to identify local strategies that help homeowners and communities prevent or mitigate the effects of mortgage delinquencies and foreclosures. According to Braunstein, since May 2007 community affairs offices have sponsored more than 50 foreclosure-related events with nearly 5,000 attendees.

By making data and other research resources available, the Federal Reserve hopes to help organizations make decisions that will benefit borrowers and local communities. Braunstein noted that NeighborWorks America used data from the Federal Reserve to identify areas of greatest need for the allocation of \$130 million in congressional funds that the nonprofit received to increase housing counselor capacity.

She also explained that the Federal Reserve has provided data analyses and maps that show regional variation in the condition of securitized owner-occupied subprime and alt-A

mortgage loans.² This information can help community organizations, policymakers, and local governments identify the areas that are most vulnerable to foreclosure by showing areas with high foreclosure rates, large shares of loans that are 90 or more days' delinquent, and high proportions of adjustable-rate mortgages (ARMs) that are scheduled to reset in the next 12 months.

Near-Term Responses

Braunstein pointed out that there has been a significant increase in lending by nondepository mortgage lenders, institutions that fall outside the supervisory purview of the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation. To help provide insight into the policies and practices of such entities and their compliance with consumer protection laws and regulations, the Federal Reserve is participating in a multi-agency initiative that is conducting reviews of selected institutions. This pilot program is focusing on nondepository subsidiaries of bank and thrift holding companies, as well as mortgage brokers doing business with, or working for, these entities. Additionally, the state agencies participating in the program will conduct coordinated examinations of independent state-licensed subprime lenders and their associated mortgage brokers. The agencies

¹ "Reducing Preventable Mortgage Foreclosures," speech by Chairman Ben S. Bernanke, Independent Community Bankers of America Annual Convention, Orlando, Fla., March 4, 2008, www.federalreserve.gov/newsevents/speech/bernanke20080304a.htm.

² "Dynamic Maps of Nonprime Mortgage Conditions in the United States," www.newyorkfed.org/mortgagemaps.

will share information about the reviews and investigations, take action as appropriate, collaborate on the lessons learned, and seek ways to better cooperate in ensuring effective and consistent reviews of these institutions.³

The Federal Reserve is also concerned about housing vacancies in neighborhoods and the impact they have on communities. A large number of vacant homes, including real-estate-owned properties (REO) held by loan servicers, can result in a deterioration of a neighborhood's property values or other negative effects, Braunstein observed. To establish an effective approach for the treatment of REOs, the Federal Reserve has partnered with NeighborWorks America to evaluate options such as rehabilitating homes for first-time homeowners, creating good-quality rental units, or selling homes to community land trusts to help promote neighborhood stabilization in communities with numerous foreclosures.

Long-Term Responses

Finally, the Federal Reserve has used its rulemaking authority to ban certain unfair and deceptive practices and to require that consumers receive disclosures earlier, in an effort to make the mortgage lending process more understandable to borrowers. On December 18, 2007, the Federal Reserve proposed new rules under the Home Ownership Equity Protection Act (HOEPA) and the Truth in Lending Act. The rules, if adopted, will apply to all mortgage

lenders and not just to depository institutions.

The proposal is two-pronged. It would provide additional protection for higher-priced mortgages, but it also contains provisions that would apply to all home-secured loans. For higher-priced mortgages,⁴ the proposal would prohibit lenders from engaging in a pattern or practice of making loans without considering the ability of borrowers to repay and would require lenders to verify the borrowers' income and assets that are relied on when making the loan. Lenders would be required to escrow property taxes and homeowners' insurance (with the option for lenders of allowing borrowers to opt out after 12 months). The use of prepayment penalties in higher-priced mortgages would be restricted and the prepayment penalties would have to expire at least 60 days before the interest rate on the loan resets.

The proposal also includes new consumer protections that would apply to most mortgage loans. The proposal would require early disclosure to the borrower of a mortgage broker's total compensation, and the lender would be prohibited from making payments to the broker that would exceed the disclosed amount.⁵ Loan servicers would be required to promptly credit payments to a consumer's account and provide payoff statements within a reasonable period of time. Servicers would also be banned from pyramiding late fees. Under the proposed rules lenders and brokers would be prohibited



Sandra F. Braunstein of the Federal Reserve Board of Governors

from coercing or encouraging an appraiser to misrepresent the value of a home. The Federal Reserve has also proposed additional disclosure rules for mortgage advertising, and certain misleading or deceptive advertising practices would be prohibited, including the advertisement of ARMs as fixed-rate loans.

The Federal Reserve has reacted to this current foreclosure crisis by promoting a balanced mortgage market that supports access to mortgages, including responsible subprime loans, and a range of consumer options within the market. Its actions represent a constant balancing act between "enabling innovation and flexibility while ensuring meaningful consumer protections," a point that Braunstein emphasized. She also noted that the Federal Reserve will monitor and continue to respond to unfolding events in the mortgage market.

³ See Federal Reserve press release, www.federalreserve.gov/newsevents/press/bcreg/20070717a.htm.

⁴ According to the rule, "higher-priced mortgages would be those whose annual percentage rate exceeds the yield on Treasury securities of comparable maturity by at least three percentage points for first-lien loans, or five percentage points for subordinate-lien loans."

⁵ A fee paid by a lender to a broker for a higher-rate loan is known as a "yield spread premium."

Research Examines Schools and Uneven Opportunities

By Harriet Newburger, Ph.D., Community Development Research Advisor

The three research sessions discussed in this article provide evidence on the ways in which the residential neighborhood environment may affect individual and household well-being. They also examine what we know about policies and programs that might potentially improve outcomes for households whose options are negatively affected by their neighborhoods. The first session considers education; the other two look at strategies specifically designed to provide households with a neighborhood environment that offers better opportunities.

Schools and Neighborhoods: Research and Policy

Jens Ludwig reviewed research on interventions that attempt to narrow the performance gap between students from disadvantaged and affluent backgrounds. Two interventions he discussed, early childhood education and class-size reduction, increase educational inputs for disadvantaged children. Both appear to boost test scores initially and to generate positive long-term life



Harriet Newburger, Ph.D.,
Community Development Research Advisor

outcomes in areas like earnings or criminal activity, even when test-score gains fade over time.

Ludwig also discussed three interventions aimed at increasing the efficiency with which available inputs are used. Some “whole school reforms,” which attempt to restructure the learning process, appear to provide benefits of the type already discussed. Teacher accountability policies are associated with gains on performance measures but may have unintended consequences, such as misconduct by those administering exams. Increasing the percentage of effective teachers in schools serving disadvantaged children requires administrators to identify teaching effectiveness and follow hiring practices leading to the desired result.

Despite some caveats on program design, Ludwig and his co-author are cautiously optimistic that expanded implementation of some of the interventions would provide results justifying their costs. They stress, however, that even successful intervention will only narrow the performance gap, not eliminate it.

Paul Jargowsky’s research focused on two factors that may contribute to lower performance by disadvantaged children, the within-school environment the student encounters – including both school resources and classmates – and the student’s neighborhood, which may affect achievement through such avenues as the role models it provides or the values it fosters. Untangling the effects of these factors has proven difficult because the characteristics

of the within-school environment and the neighborhood environment tend to be highly correlated, but Jargowsky and his co-author draw on a multiyear data set compiled by the Texas Schools Project whose large size helps to mitigate this problem. Preliminary findings indicate that the within-school environment has a larger direct effect on student performance than the neighborhood environment. Nonetheless, neighborhood characteristics such as poverty rate and percent of neighborhood residents with college degrees do have a direct and significant effect. Moreover, Jargowsky notes that neighborhood characteristics are a key determinant of a number of aspects of the *within*-school environment, such as the student’s school peers, and thus have a further, *indirect* effect on a student’s performance.

Dealing with Uneven Geographies of Opportunity, Strategy 1: Neighborhood Revitalization

Ingrid Gould Ellen presented preliminary results of research that supports a widely held but previously untested perception that low-income central city neighborhoods experienced a revival in the 1990s. Ellen and her co-author examined the extent to which such neighborhoods showed large economic gains or losses in each of the three decades between 1970 and 2000.¹ (The authors designated a large change as one in which neighborhood income as a percentage of metropolitan income changes by at least 10 percentage points.) In the 1990s, low-income neighborhoods were about 2.5 times

¹ They used census tracts as neighborhood units and defined low-income neighborhoods as tracts with mean income below 70 percent of metropolitan area income.

more likely to experience large gains than large losses, a reversal from the two previous decades, when large losses were about three times more likely than large gains. Exploratory analysis suggests that large gains in the 1990s were more likely in metropolitan areas where poverty and crime fell the most, the share of immigrants was largest, and low-income housing tax credit units increased the most. Ellen cautioned that economic gain in a neighborhood does not indicate whether low-income households who lived there at the start of the decade are better or worse off.

Place-based investment in neighborhoods where opportunities are limited is one strategy for alleviating the uneven geography of opportunity. **Mark Joseph** reviewed the literature on a particular form this strategy might take, mixed-income housing development. He also discussed his Chicago-based research on HOPE VI projects, public housing projects typically redeveloped as mixed-income developments with fewer public housing units. He conducted interviews with developers, social service providers, other stakeholders, and residents of those sections of the developments that have reached occupancy stage. Low-income residents reported improved quality of life, though a substantial number did not expect the income mix to provide opportunities beyond improved housing. Joseph found little social interaction across income groups, one mechanism by which it has been posited that low-income

opportunities might increase. Other early findings include the successful marketing of mixed-income projects to higher income households; difficulties in marketing units to households that were relocated from pre-HOPE VI public housing units during the redevelopment process; the complexity of the development process; and the dampening effect of the current housing crisis on this development process.

Dealing with Uneven Geographies of Opportunity Strategy 2: Programs That Move People Out of Concentrated Poverty

An alternative strategy to place-based investment for improving the options of households living in neighborhoods with limited opportunities is to help them move to places where opportunities are better. The final research session was devoted to HUD's Moving to Opportunity Demonstration (MTO), which was set up to test the effects of this strategy on the well-being of poor families. Eligibility for the demonstration, conducted in five large cities,² was restricted to families living in subsidized housing projects in high-poverty neighborhoods.³ Participation was voluntary. Families applied between 1994 and 1998 and were randomly assigned to one of three groups: an experimental group

receiving Section 8 housing vouchers that could be used only in low poverty areas; a Section 8 group receiving vouchers with no geographical restrictions; and a control group that did not receive vouchers but continued to receive project-based housing assistance.⁴

Lisa Gennetian discussed findings from a 2003 interim evaluation of MTO, focusing on the comparison between the experimental and control groups. Compared to those in the control group, families in the experimental group tended to live in lower-poverty and safer neighborhoods and experienced lower rates of adult depression and obesity.

Economic gain in a neighborhood does not indicate whether low-income households who lived there at the start of the decade are better or worse off.

Teenage girls in the experimental group had a lower incidence of psychological distress than their counterparts in the control group, though this was not the case for males. No significant effects on employment or earnings were found and there was little difference between the experimental and control groups in terms of children's school achievement. Gennetian also provided an overview of the final evaluation of MTO, which is currently underway and which she co-manages.⁵ It will

² Baltimore, Boston, Chicago, Los Angeles, and New York.

³ The term "subsidized housing projects" includes both public housing and privately owned, publicly subsidized projects. High-poverty neighborhoods are defined as those with poverty rates of 40 percent or more, while low-poverty neighborhoods are defined as those with a poverty rate below 10 percent.

⁴ Forty-seven percent of the experimental group and 68 percent of the Section 8 group actually used their vouchers to lease a unit.

⁵ This evaluation is being undertaken by a team of researchers associated with the National Bureau of Economic Research, with support from HUD and a number of other public and private agencies and foundations.

focus on long-term effects of MTO and the mechanisms by which they play out. A particular area of interest will be children who were very young at the start of the demonstration, since children who grow up in low-poverty areas from infancy and early childhood would be expected to show greater effects than children who move at age 10 or older.

Xavier de Souza Briggs presented research that integrated data from interviews, ethnographic fieldwork, and quantitative sources to explore the puzzle of finding no employment effects in the interim MTO evaluation. He noted that the expectation that employment effects would be found was based on three assumptions.

First, the spatial mismatch between residential location and the location of low-skilled jobs would be reduced for families that moved. But in some cities, relocation actually decreased employment access as families that moved left areas with dense concentrations of low-wage jobs accessible

by good public transportation or moved farther from areas experiencing entry level job growth. Difficulties in accessing employment were reinforced by difficulties in finding accessible, affordable child care.

Relocating enabled some young people to build more diverse friendships and a broader repertoire of “soft skills” that they perceived to be important for upward mobility, notwithstanding some pain in acculturating to new social expectations in the new locations.

Second, families that moved to low-poverty areas would develop social networks in their new neighborhoods that helped in finding and maintaining jobs. But interviews indicated that the casual interactions these families had with their neighbors did not serve this purpose.

Third, social norms in the new neighborhoods would encourage work. Briggs noted that relocating enabled some young people to build more diverse friendships and a broader repertoire of “soft skills” that they perceived to be important for upward mobility, notwithstanding some pain in acculturating to new social expectations in the new locations. Briggs and his co-authors argue that for relocation to more effectively foster positive labor force outcomes, it must be supported by programs providing access to jobs, training, child care, and transportation.

The findings on psychological distress among teenagers described earlier in this section were based on an analysis of survey data from all five MTO sites. **Susan Clampet-Lundquist** repeated this analysis

using survey data for a single site, Baltimore. She found no meaningful difference in psychological distress between girls in the experimental and control groups, but found that boys in the experimental group were more likely to experience

psychological distress than those in the control group.

Clampet-Lundquist then used in-depth interview data collected from two groups of Baltimore teenagers to examine factors that might underlie psychological distress. One group was a subset of experimental-group teenagers whose families had used their vouchers to move from their original neighborhoods; the other was a subset of control-group teenagers. There were strong differences in the experiences described by the two groups. Sources of family conflict tended to be more serious for control-group teenagers, who also reported abuse, problems with anger, and neighborhood violence more frequently. Clampet-Lundquist did not find pronounced gender differences among teenagers *within* the experimental group. She stressed the complementary nature of survey and interview data for understanding outcomes that might arise from an MTO-like initiative.



Research Perspective: How Does Place Matter?

By Marvin M. Smith, Ph.D., Community Development Research Advisor

When a person considers a choice of residence (whether for purchase or rent), affordability and suitable living space are generally at or near the top of the list. However, the neighborhood in which you live might influence critical aspects of your well-being. A neighborhood's characteristics might be associated with the crime level, the social interactions that take place there could affect criminal involvement, and the conditions in a neighborhood may

The current racial and ethnic makeup of a neighborhood could portend its future racial composition, especially whether segregated or integrated.

have a profound effect on your physical and mental health. In addition, the current racial and ethnic makeup of a neighborhood could portend its future racial composition, especially whether segregated or integrated. These various neighborhood effects were addressed in presentations made at the Philadelphia Fed's reinventing older communities conference. What follows is a brief summary of those presentations.¹

Social Interactions and Crime

Two presentations were offered that discussed the interplay of neighborhood attributes and crime as well as the influence of social interactions in the neighborhood on criminal

behavior. In the first presentation, **Michael Stoll**, of the University of California, Los Angeles, reviewed the evidence on the neighborhood-crime connection. Stoll pointed out that although crime has trended downward recently, we should still be concerned because the monetary losses resulting from crime amount to nearly 1 percent of the country's gross domestic product.² He noted that the scholarly literature on neighborhoods and crime is not very extensive, which has resulted in policy prescriptions that are imprecise. Stoll stressed that a neighborhood defined by its amenities (businesses, jobs, schools, parks, etc.) can affect

crime differently than one defined in terms of social interactions among families, peers, and networks. These alternative definitions in turn yield different types of policy interventions.

Stoll reported that cross-sectional data reveal strong correlations between indicators of disadvantaged neighborhoods and criminal propensity and victimization. These strong relationships are as expected. For example, more poor metropolitan areas and those with higher degrees of racial segregation have more violent crimes. But there is still the issue of causality. Also, it is difficult to determine the mechanism under-

lying the neighborhood-crime link: a neighborhood's physical attributes or social interactions, or both. According to Stoll, these issues should be resolved before meaningful policy initiatives are formed.

The second presentation, by **Robert Sampson** of Harvard University, focused on how neighborhood social dynamics interact with outcomes of neighborhood violence and public safety. He also provided some valuable insights on the impact of immigrants on neighborhood crime. Sampson relied on extensive research he has done on Chicago, the results of which are useful for other large cities. He found that crime tends to be concentrated in poor neighborhoods, regardless of whether they are located in the inner city or the suburbs. This finding persists over time, even though overall crime declined during the 1990s. Sampson also pointed out that social networks and interaction in a neighborhood can produce both positive and negative effects on neighborhood crime.

In addition, Sampson commented on the structural changes taking place in cities through immigration. He



Marvin M. Smith, Ph.D.,
Community Development Research Advisor

¹ All of the presentations summarized here can be found on the Federal Reserve Bank of Philadelphia's website: www.philadelphiafed.org.

² This does not include other costs of combating crime, such as expenditures on criminal justice activities (policing, judges, courts, and prisons).

indicated that, in contrast to popular stereotypes, neighborhoods of concentrated immigration have lower rates of violence. Moreover, first- and second-generation immigrants are less likely to commit crimes than third-generation Americans.

Neighborhoods and Health

Janet Currie, of Columbia University, was the first presenter to discuss the connection between residential location and health. Currie concentrated her remarks on the possible causal relationship between poor neighborhoods and bad health: Does the neighborhood cause poor health

(such as pollution and crime) because they are less expensive. Currie concluded, however, that there was evidence that pollution and crime were attributes of neighborhoods that did have a causal effect on health.

Rucker Johnson, of the University of California, Berkeley, approached the relationship between neighborhood and health from a long-term perspective. He observed that the present health outcomes of individuals are a product of past and current neighborhood exposures. Thus, it is necessary to examine the role

by differences in influential factors during childhood rather than adult socioeconomic conditions and neighborhood environment.

Patterns of Segregation

Research has shown that racial minorities that live in segregated neighborhoods tend to be disadvantaged in terms of access to jobs, quality education, medical care, and public amenities. One approach to improving the prospects of minorities is to promote racially mixed neighborhoods. Key to the stability of newly established integrated neighborhoods are the circumstances that initially generated and perpetuated the segregation. **Alexandre Mas**, of the University of California, Berkeley, presented his recent research on this issue. Originally it was thought (theoretically) that even if most white residents individually have relatively modest preferences for a neighborhood with a small percentage of minorities, their aggregate behavior in reaction to a small change in the percentage of minorities could tip the neighborhoods' racial makeup either to all minorities through "white flight" or all white through "minority flight." The fraction at which this transformation takes place is the tipping point. This two-sided tipping suggests that racially mixed neighborhoods are inherently unstable.

Mas's work has dealt with whether this notion of a tipping point has empirical relevance for the development of neighborhoods over time. He investigated whether or not integrated neighborhoods with a level of minorities below the tipping point are perpetually stable. Using census data for major metropolitan areas during the 1970-2000 period, Mas determined that there appears to be a tipping point present in most

Research has shown that racial minorities that live in segregated neighborhoods tend to be disadvantaged in terms of access to jobs, quality education, medical care, and public amenities.

or do people with bad health cluster in the same neighborhood? Thus, she warned against assuming that a correlation between neighborhood location and health implies causality. But Currie suggested several ways in which residential location can affect health. She noted that neighborhoods with few job opportunities and higher prices (for food and transportation) can limit their residents' investment in health. Also, neighborhoods with elevated levels of pollution, high crime rates, and a lack of parks or other opportunities for recreation can adversely affect the health of residents. However, the causal relationship is confounded by the well-documented connection between poverty and poor health. People choose their locations, and poor people (with poor health) are more likely to live in neighborhoods with undesirable characteristics

played by neighborhood conditions over an entire lifetime, and it is especially important to look at how conditions during childhood can affect health later in life. Johnson discussed the results of his research using a nationally representative longitudinal data set to assess the relative contributions of individual family and neighborhood factors on health over a lifetime. He chose the case of hypertension for his analysis. Johnson compared the adult health status among siblings who grew up together and unrelated children who grew up in the same narrowly defined neighborhood. He found that neighborhood poverty during childhood increases the odds of the onset of hypertension through midlife (age 55) by 26 percent. He also determined that the greater part of the racial gap in the incidence of hypertension can be explained

cities and that these points tend to vary across cities and over time. In contrast to the view that integrated neighborhoods are unstable and characterized by two-sided tipping, he found that they are semi-stable with one-sided tipping (white flight). Thus, they can remain racially mixed as long as the minority share remains below the tipping point.

Fernando Ferreira, of the University of Pennsylvania, approached this issue by focusing specifically on Hispanics. Ferreira observed that while Hispanics are the largest minority group in the U.S., we know very little about their preferences for living in Hispanic neighborhoods. He investigated the relationship between Hispanics, residential segregation, and housing prices. Ferreira examined how housing prices change as the share of Hispanics in the neighborhood increases and the willingness of Hispanics to pay for an increase in the share of Hispanic neighbors. He pointed out the statistical difficulties inherent in estimating Hispanics' residential preferences and their willingness to pay to live in Hispanic neighborhoods.

Ferreira relied on two studies with different approaches to the empirical complexities, both using data pertaining to the San Francisco Bay Area. Both studies reached similar results. Housing prices tended to decline as more Hispanics moved into predominately white neighborhoods but tended to increase as more Hispanics entered mostly Hispanic neighborhoods. Also Hispanics have strong preferences to live with other Hispanics and are willing to pay a premium in terms of house price to do so. Ferreira concluded that this dynamic can result in self-segregation, as witnessed in some areas.

District News

Federal Reserve Chairman Ben S. Bernanke delivered a speech on "Mortgage Delinquencies and Foreclosures," on May 5, 2008. Federal Reserve Governor Randall S. Kroszner gave a speech entitled "Mitigating the Impact of Foreclosures on Neighborhoods," on May 7, 2008. Governor Kroszner also spoke on "Developing Sustainable Capital for Community Investments," on April 21, 2008. The speeches may be found at www.federalreserve.gov. Select News and Events; Speeches. (Note: The Federal Reserve Board of Governors has an e-mail notification service that alerts subscribers to newly available testimonies, speeches, articles, reports, and other information. To subscribe, go to www.federalreserve.gov. Select News and Events; Services; e-mail notification.)

An article written by Tony E. Smith, Ph.D., University of Pennsylvania, and Marvin M. Smith, Ph.D., and John J. Wackes, of the Philadelphia Fed's Community Affairs Department, "Alternative Financial Service Providers and the Spatial Void Hypothesis," was published in the May 2008 issue of *Regional Science & Urban Economics*. To obtain a copy, contact marty.smith@phil.frb.org.

"Transit-Oriented Development in Philadelphia," a report prepared by Econsult Corporation for NeighborhoodsNow, is available at www.neighborhoodsnowphila.org.

A new centralized service has been established for consumer complaints and inquiries involving financial institutions. Complaints will be forwarded to the appropriate federal regulator. For information, go to www.federalreserveconsumerhelp.gov, (888) 851-1920, or ConsumerHelp@FederalReserve.gov. A Spanish-language version is available through the website.

Stephanie A. Wall has been named senior vice president of community relations at Wachovia Bank and is based in Philadelphia.

Marilyn Jordan Taylor has been selected as the dean of the University of Pennsylvania's School of Design. Taylor has most recently been a partner in charge of the urban design and planning practice at Skidmore, Owings and Merrill LLP. During a 35-year career with the firm, she led many of the firm's largest and most complex projects around the world.

A Blueprint for American Prosperity ...continued from page 1

Katz argued that this is the year to convince the federal government that a new model for economic development and growth is needed. He noted that not since 1952 has there been an election without an incumbent president or vice president as a candidate. This provides a great opportunity to influence change, particularly how the federal government responds to the needs of states and cities but most of all metropolitan areas. He proposed that a new partnership with the federal government can leverage the assets needed for competition. Those assets fall into four categories: innovation, human capital, infrastructure, and quality of place.

Innovation and human capital, the first two assets, are intricately intertwined. Innovation is important for new job growth, and researchers studying comparative levels of innovation find that a highly educated workforce and good research and development facilities are essential. Regions with a higher proportion of college graduates are more likely to have higher levels of innovation.

Noting that “you earn what you learn,” he suggested that all of us must be involved in improving the public education system throughout our metropolitan area, not just for reasons of equity but also for competitiveness. The fact that only 13 percent of Hispanics and 18 percent of black Americans are college graduates, compared to 34 percent of whites and 59 percent of Asian Americans, is a competitive disadvantage for all of us. While minorities are only 25 percent of our workforce now, soon they will represent 40 percent. If the U.S. workforce is not as well educated as China’s or India’s, our economic advantage will suffer.

The third asset Katz believes we must leverage is our existing infrastructure. It is not good enough to build new systems and let the existing ones – whether highways, rail lines, or seaports – deteriorate. The collapse in 2007 of the I-35W bridge in Minneapolis was a stark reminder that we cannot ignore the stresses and strains of everyday use.

Quality of place, Katz’s fourth asset, is something we all want – neighborhoods that are safe, attractive, and affordable while also accessible to parks, jobs, good schools, and a range of cultural activities.

Katz believes that these four assets can be leveraged best by changing how we plan for economic growth. The federal government is an important partner in planning for large intra-metropolitan needs such as railways, highways, airports, and seaports. But Katz believes the federal government should only provide incentives for metropolitan areas to determine all other needs, then step out of the way. He describes this as “flipping the pyramid” on its head, meaning the federal government would respond to local needs rather than direct them.

To promote this change in thinking, Brookings has created a leadership council and is planning a series of meetings between the party conventions and the elections to create a “Blueprint for American Prosperity.” Starting with a summit scheduled for June 12, 2008, Brookings will look to experienced leaders for their ideas. In the next year, Katz will ask these leaders how we can:

- spur innovation in our firms and workers and create vast new markets for high-value American products and services;

- build an educated and highly skilled workforce that is racially and ethnically diverse; and
- accommodate the next 120 million Americans in quality communities.

He thinks that with this information we can create a new federalist compact to ensure that the federal government: (1) leads where it must by providing national direction on climate change, infrastructure, and wage stagnation; (2) empowers metropolitan areas where it should by, for example, giving metro areas the flexibility to tailor economic development policies to their own clusters of economic activity; and (3) maximizes performance by committing itself to evidence-based performance. Katz believes the federal government can be this force, if it re-thinks its role in the current global economy.

For more information, please visit www.philadelphiafed.org/ccal/conferences.html to hear a recording of Bruce Katz’s speech and see his slide presentation.



Bruce Katz, The Brookings Institution

Mayors: Reinventing Begins with Planning ...continued from page 3

downtown, Stamford currently uses tools such as zoning and density bonuses to keep big box retailers downtown and out of neighborhoods and to encourage infill housing and mixed-use development.

Youngstown, Ohio; **Mayor Jay Williams**

Youngstown is located between Pittsburgh and Cleveland, approximately 65 miles from each city. This former steel-producing city, with a population of 170,000 at its peak, was laid out to accommodate a population of 250,000. With an estimated population of 83,000 in 2006, the city, Mayor Williams explained, has “finally come to terms with itself rather than looking in its rearview mirror.” As a result of a plan known as Youngstown 2010, the city now accepts that its size will range from 80,000 to 85,000 residents; it is no longer the economic juggernaut in the regional economy; and it needs to address image and quality of life issues through land-use planning and economic development. Williams cautioned that similar to a private enterprise, a city can downsize or “right size” physically, but morally and legally it must deliver certain goods and services. Youngstown has become known for its effort to right size, and the city is in the contemplation and trial stages of limited decommissioning of roads, utilities, and other infrastructure, turning vacant and abandoned areas into parks and recreation areas. Finally, Williams explained that the community is beginning to accept that “no knight from Columbus or Washington, D.C., will save the city.”

Cleveland, Ohio; **Christopher Warren,** **Chief of Regional Development**

Warren was asked to address the impact of subprime lending and foreclosure on the city of Cleveland. He reported that 17,000 units were in foreclosure in the city from 2005 to 2007 and that researchers at Case Western Reserve University had found that 80 percent of these foreclosures were traced to subprime originators. In 2007, the city of Cleveland spent \$12 million for demolition in connection with foreclosed properties, a fivefold increase over the cost in 2005. Warren explained that Cleveland’s problems predated subprime lending, but “those problems made Cleveland and similar municipalities susceptible to subprime lending schemes.” He estimated that at least 50 percent of the subprime borrowing in Cleveland was done by investors. Their purchases were “financed by hedge fund investment vehicles that provided mezzanine financing for hundreds of one- and two-family houses at a clip.” Those loans and the subprime loans made to the ultimate home purchaser were packaged and sold by Wall Street firms as securitized investments.

In January 2007 the city, “in an effort to hold those parties responsible for the devastation in Cleveland,” filed suit against 21 financial services companies³ the city said had purchased investments backed by the subprime mortgages. The lawsuit claimed that the subprime lending practices had created a public nuisance. The city is seeking damages for the cost of rebuilding the

city, public nuisance costs, and lost revenues. Warren explained that the lawsuit is based on the belief that the financial institutions “could have, [and] should have foreseen the massive numbers of foreclosures and cataclysmic impacts that those foreclosures have had on [Cleveland].”

In response to questions about what would be done with proceeds from the lawsuit, Warren answered that Cleveland has a citywide plan in which citizens and community groups are key partners and indicated that there are plans in place to deal with land that comes into public ownership. The city will continue its work with Neighborhood Progress Inc. and the George Gund Foundation on stabilizing six of the city’s neighborhoods. On a regional level, the city is working with the Gund Foundation and nearly 100 other entities in northeastern Ohio on a tax sharing plan to capture the benefits of growth in the region.

Philadelphia, Pennsylvania; **Mayor Michael A. Nutter**

Michael Nutter became mayor in January 2008. As a moderator at the conference, Mayor Nutter decried the “lack of a national discussion among current presidential candidates from either party of the role of the federal government in cities, education, public safety, and economic development.” The candidates, he said, were not focusing on the concerns of cities. Mayor Williams agreed and quoted former President John F. Kennedy: “We will neglect our cities at our peril, for in neglecting them we neglect the Nation.”

² Stamford is a busy station on the regional Metro North train line and, according to Malloy, is second only to Grand Central Station in Manhattan.

³ These companies include banks and bank holding companies, mortgage companies, and investment banks.

How Can Foundations Change Urban Markets? ...continued from page 7

worked in neighborhood development because of staff and board turnover and have made “a very serious mistake” by over-reliance on a capacity-building strategy. He added that many foundations “are insular, have a difficult time collaborating with each other, and are often risk-averse.”

Baron said that foundations “could make an enormous difference in changing local communities” by filling financing gaps such as early-stage pre-development costs for acquisition, environmental tests, and architectural work. The early-stage money is the hardest to find nowadays, he said.

Foundations should invest in projects developed by nonprofit developers to enable the nonprofits to learn the development business and how to use the myriad of complex, often-changing government programs, Baron said. The infrastructure of public agency staff trained in development has been lost, he said, adding: “One of the great deficiencies in the U.S. and Europe is that we have not trained a group of social entrepreneurs to take on the heavy tasks of rebuilding neighborhoods.”

Nowak added that foundations should provide “smart subsidies,” not substitute for money that is already available or “obscure inefficiencies.” He and the panelists agreed that foundations incur reputational risk if they get involved in development projects, a factor that inhibits their participation.

Houstoun said that what’s often needed is more collaboration among different organizations in a community and noted that foundations can require such collaboration as a condition of funding.

In a discussion period, Abbott and Houstoun were asked how foundations keep themselves accountable and evaluate their progress. Nowak pointed out that foundations, unlike private-sector firms, “don’t have customers with a set of expectations.” Abbott said that the Fund for Our Economic Future (FEF) retained several area economists to develop a dashboard of economic indicators that measure the progress of the regional economy. The Federal Reserve Bank of Cleveland collaborated in the effort. In addition, the Gund Foundation retained the Center for Effective Philanthropy⁵ to conduct anonymous surveys of grantees. Houstoun said that WPF has a strategic plan and that its staff meets every six months to evaluate progress. Like Gund, WPF also receives anonymous grantee feedback through the Center for Effective Philanthropy and routinely invests in external evaluations of its grant-making strategies by independent experts.

Baron said that school reform is a “critical ingredient” for revitalizing urban neighborhoods and that he



Photo courtesy of McCormack Baron Salazar

A girl plays piano in the music room of a new public elementary school in Centennial Place, a mixed-income HOPE VI project in Atlanta developed by McCormack Baron Salazar.

has worked with public, charter, and parochial schools. He added: “Dysfunctional school systems have a negative impact on real estate. In city after city, we struggle with trying to rebuild a neighborhood and at the same time improve the quality of a school so we can broaden the economic base of a neighborhood, give families a reason to come to the neighborhood, and change the market. We won’t build until we know a school is going to be rebuilt and that it will be a first-class school.”⁶

For information, contact: David T. Abbott at dabbott@gundfdn.org; www.gundfoundation.org; Richard D. Baron at richard.baron@mccormackbaron.com; www.mccormackbaron.com; Feather O. Houstoun at fhoustoun@williampennfoundation.org; www.williampennfoundation.org; and Jeremy Nowak at nancy.horton@trfund.com; www.trfund.com.

⁵ For information, go to www.effectivephilanthropy.org.

⁶ Nowak said that charter schools represented TRF’s second largest loan portfolio with financing of \$120 million provided to schools educating 23,000 youngsters and added that “conventional philanthropy has been slow to respond” to the need for school-based management improvement reforms.

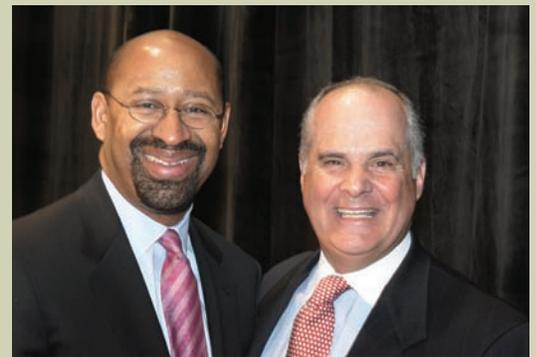
Scenes from How Does Place Matter?

March 26 - 28, 2008



Left: Dede Myers, Vice President and Community Affairs Officer, Federal Reserve Bank of Philadelphia; Eugenie Birch, Lawrence C. Nussdorf Chair of Urban Research and Education, University of Pennsylvania; Amy Gutmann, President, University of Pennsylvania; and Richard W. Lang, Executive Vice President, Federal Reserve Bank of Philadelphia.

Below: Michael A. Nutter, Mayor of Philadelphia, and Charles P. Pizzi, President and CEO, Tasty Baking Co., Philadelphia, and Deputy Chairman, Board of Directors, Federal Reserve Bank of Philadelphia.



Above: Jeremy Nowak, President and CEO, The Reinvestment Fund Inc., Philadelphia, and Member, Board of Directors, Federal Reserve Bank of Philadelphia; Richard W. Lang, Executive Vice President, Federal Reserve Bank of Philadelphia; and George Galster, Hilberry Professor of Urban Affairs, Department of Geography and Urban Planning, Wayne State University, Detroit.



Middle Right: Andrew D. Altman, Deputy Mayor for Planning and Economic Development and Director of Commerce, City of Philadelphia; Ellen Pope, Senior Program Officer, Comparative Domestic Policy, The German Marshall Fund of the United States, Washington, D.C.; and Valentino Castellani, former Mayor of Turin, Italy, and Professor Emeritus of Electrical Communications, Turin Polytechnic.

Right: Kausar Hamdani, Vice President of Communications and Regional and Community Affairs, Federal Reserve Bank of New York; Sandra F. Braunstein, Director, Division of Consumer and Community Affairs, Federal Reserve Board of Governors; and Dede Myers, Vice President and Community Affairs Officer, Federal Reserve Bank of Philadelphia.



Calendar of Events

Financial Education Network of Southeastern Pennsylvania – Foreclosure Prevention Loans and Assistance

June 25, 2008, 9 a.m. to 2 p.m., Federal Reserve Bank of Philadelphia

This meeting focuses on new efforts in the Delaware Valley to assist homeowners facing foreclosure, refinancing options available from financial institutions and government agencies, and other assistance available to community organizations and homeowners. Registration is required.

For information, contact jeri.cohen-bauman@phil.frb.org; www.philadelphiafed.org.

2008 Governor's Conference on Housing and Community Development

September 23-24, 2008, Atlantic City Convention Center

Conference topics include neighborhood revitalization, property management, green building, housing for special populations, financial resources, and innovations in housing planning, development, and preservation.

For information, contact Mary Miller at (609) 278-7403 or mmiller@njhmfa.state.nj.us; www.nj.gov/dca/hmfa/home/conference/index.htm.

2008 Homes Within Reach Conference

November 18-19, 2008, Harrisburg Hilton

The Housing Alliance of Pennsylvania presents its fourth annual conference, featuring 30 workshops, eight three-hour institutes, and eight three-hour symposiums covering a wide range of housing and community development issues.

For information, contact info@housingalliancepa.org or visit www.housingalliancepa.org.

Innovative Financial Services for the Underserved: Opportunities and Outcomes

April 16-17, 2009; Renaissance Washington DC Hotel

The Community Affairs officers of the Federal Reserve System are jointly sponsoring their sixth biennial research conference to encourage objective research on financial services issues affecting low- and moderate-income individuals, families, and communities. The officers are accepting proposals for papers to be presented at the conference.

The call for papers is posted at http://www.richmondfed.org/community_affairs.

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