

PUBLISHED BY THE
COMMUNITY AFFAIRS
DEPARTMENT OF THE
FEDERAL RESERVE BANK
OF PHILADELPHIA

A COMMUNITY DEVELOPMENT PUBLICATION

CASCADE

INSIDE:

2 — Vera Bowders:
A Remembrance

6 — Arts District Revitalizes
Downtown in Millville, NJ

9 — Church-Based CDC
Helps Delaware Residents
Build Assets

10 — PNC Bank, Delaware,
Helps Unbanked Residents
Open Savings Accounts

11 — New Markets Tax Credits
Allocated

11 — Wilmington Native
Appointed Federal Reserve
Division Director

13 — Standard and Poor's
Revises MBS Criteria Owing to
Anti-Predatory Lending Laws

13 — District News

14 — Spotlight on Research:
Predatory Lending: How
Pervasive Is It?

Do the New COAH Rules Meet the Needs of New Jersey Residents?

No: They Are the Wrong Rules at the Wrong Time

By Alan Mallach, Research Director,
National Housing Institute

Editor's Note: The National Housing Institute is a research center based in Montclair, NJ, that focuses on housing and community development issues, with a particular emphasis on activities that support the work of community development corporations and community-based organizations. It is the publisher of Shelterforce magazine.

The need for affordable housing in New Jersey is growing steadily. Housing production has slowed, while redevelopment, immigration, and real estate speculation have pushed rents and sales prices upward in older cities as well as in suburban areas. The number of families in overcrowded housing has gone up 50 percent since 1990, and according to the U.S. Census, nearly 400,000 renters spend over 30 percent of their income for shelter. Meanwhile, thousands of families continue to move to New Jersey, seeking opportunity in the state's thriving economy.

While the Council on Affordable Housing (COAH) can't solve this problem by itself, it can make a major contribution to meeting these needs. By setting fair-share targets for low- and moderate-

...continued on page 3

Yes: They Encourage Affordable Housing and Smart Growth

By Susan Bass Levin, Commissioner, New Jersey Department of Community Affairs

Last summer, the Council on Affordable Housing (COAH) proposed a sweeping overhaul of the state's existing affordable housing system. In keeping with Governor McGreevey's bold plan to stop sprawl and improve our quality of life, this new system—the third-round methodology—encourages sound local planning, promotes smart growth, and creates affordable housing opportunities for all of our state's citizens.

Through the proposed COAH rules issued in August 2003, the state encourages

In the past, COAH assigned each municipality an affordable housing obligation using speculative population, employment, and economic growth projections.

municipalities to plan in a comprehensive way that meets the needs and concerns of our communities. The new methodology uses actual residential and employment growth to determine a community's affordable housing obligation. This sensible,

...continued on page 3



FEDERAL RESERVE BANK
OF PHILADELPHIA

CASCADE is published three times a year by the Federal Reserve Bank of Philadelphia's Community Affairs Department. It is available on the Bank's web site at www.phil.frb.org/cca/capubs/cascade.html.

Material may be reprinted or abstracted provided CASCADE is credited. Please provide the Community Affairs Department with a copy of any publication in which material is reprinted. The views expressed are not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Free subscriptions and additional copies are available upon request to: Federal Reserve Bank of Philadelphia, Community Affairs Department, 100 North 6th Street, Philadelphia, PA 19106-1574.

Comments and ideas for future coverage are welcomed. Contact Keith L. Rolland at (215) 574-6569 (telephone), (215) 574-2512 (fax), or keith.rolland@phil.frb.org.

COMMUNITY AFFAIRS DEPARTMENT

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

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

Christy J. Chung
Community Affairs Analyst
(215) 574-6461
christy.j.chung@phil.frb.org

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

Marvin M. Smith, Ph.D.
Economic Education Specialist
(215) 574-6393
marty.smith@phil.frb.org

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

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

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

Yvette Cooper
Department Analyst
(215) 574-6037
yvette.cooper@phil.frb.org

Vera Bowders: A Remembrance

Vera W. Bowders, manager and community development advisor in the Philadelphia Fed's Community Affairs Department, died suddenly on July 26, 2004. Vera, who died of a pulmonary embolism following surgery to stabilize a broken ankle several days earlier, was 51.

A central part of Community Affairs since she joined the department in 1990, Vera was—as she described herself on her resume—"a self-motivated individual who thrives on challenge." She had great expertise in analyzing lending and demographic data and trends in the Third Federal Reserve District. She organized many conferences, conducted outreach meetings, oversaw the department budget, and represented the department on Federal Reserve System committees.

In her early years in Community Affairs, she prepared community profiles and organized "council" meetings of bankers and nonprofit and government representatives in communities throughout the Third Federal Reserve District.

In the past year, she organized "Re-inventing America's Older Communities," a national three-day conference. She invited 55 speakers and oversaw room, meal, and registration arrangements for 423 attendees. Two years ago, she organized "Tools for Building Sustainable Rural Communities," a major two-day conference held in Wilkes-Barre, PA. She

also recently guided the redesign of the department's community profiles to make them more useful to bankers and others.

Before joining the Philadelphia Fed, Vera served as a neighborhood specialist for the Greater Philadelphia Economic Development Coalition, helping nonprofits such as Advocate CDC and Philadelphia Chinatown Development Corporation on affordable-housing feasibility analysis and fund-raising. She also worked with business owners in Philadelphia's Hunting Park West neighborhood and designed programs for the unemployed.

Prior to that, she assisted small-business owners in North Philadelphia as assistant director of Temple University's small business development center.

Community Affairs staff members remember Vera as vibrant, outgoing, funny, spontaneous, and down-to-earth. She was a team player who counseled new members of the department and one who willingly pitched in and helped out at various department events.

She had extraordinary organizational and computer skills, and she deftly organized and executed major projects. She could figure out the best way to analyze reams of data to find significant trends and did so with uncanny speed.



She understood community-development lending from the perspectives of both nonprofits and banks. Her work with nonprofits in Philadelphia led her to feel a kinship with nonprofit developers and CRA officers working in community development. She had a special interest in rural communities and felt that their needs were often ignored or forgotten.

Vera was born in Shirleysburg (population 138) in Huntingdon County, PA. She held an undergraduate degree in music education from Penn State and an MBA from Temple University.

In addition to her many professional skills, Vera was an accomplished cook, seamstress, and gardener. She is survived by her husband, Tim, and daughter, Andrea.

No: COAH Rules Are the Wrong Plan at the Wrong Time

...continued from page 1

income (LMI) housing that reflect the magnitude of the need and by adopting rules designed to ensure that those targets are actually met, COAH can increase the amount of affordable housing and make it happen where it is most needed—in New Jersey’s growing suburbs. It is particularly unfortunate, then, that at a time when greater efforts to provide decent affordable housing are needed, COAH last summer proposed new rules that not only fail to address the need but would also reduce affordable housing production 50 percent or more below even the modest levels of the 1990s.

What exactly is COAH proposing to do? The new rules represent a dramatic departure from past practice. Instead of setting “fair-share” obligations through a formula that considers such factors as wealth, job growth, and vacant land, COAH has adopted a “growth-share” approach. Under this policy, municipalities must meet LMI housing needs only to the extent that they grow overall. If municipalities grow through the construction of new homes, shopping centers, or office parks, they must provide affordable housing in proportion to their growth. If they do not grow, they must meet only the indigenous need of LMI families in their communities.

In principle, this approach is not unreasonable, although it runs the risk that some municipalities could

...continued on page 4

Yes: COAH Rules Encourage Affordable Housing & Smart Growth

...continued from page 1

long-overdue approach is known as a growth-share model. The growth-share model has three main advantages over previous methods.

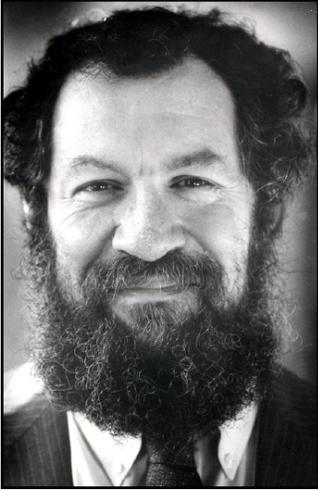
First, this growth-share methodology encourages municipalities to plan for growth while providing affordable housing opportunities. In the past, COAH assigned each municipality an affordable housing obligation using speculative population, employment, and economic growth projections. Actual growth often varied widely from these projections. As a result, affordable housing wasn’t always provided in areas that experienced significant growth, creating much less affordable housing than would have been produced under a growth-share approach. The growth-share methodology allows a municipality to plan for future growth and include the need for affordable housing in that planning. Under this plan, as a municipality grows and attracts jobs over time, it will provide affordable housing in proportion to that growth.

Second, a growth-share approach promotes smart-growth principles by encouraging strategic, sensible growth in the right places. By planning for the long term with smart-growth principles, we can work to reverse the years of damage that unplanned growth has had in our communities—damage such as pollution, loss of open

...continued on page 4

No: COAH Rules Are the Wrong Plan at the Wrong Time

...continued from page 3



Alan Mallach, Research Director, National Housing Institute

The problem is that COAH has set the LMI growth share so low that, at best, few units will be built.

block all growth in order to avoid building affordable housing. The problem is that COAH has set the LMI growth share so low that, at best, few units will be built. Instead of requiring one LMI unit for every five new houses or every five jobs added through new construction, as proposed by the Coalition on Affordable Housing and the Environment, COAH would require only one LMI unit for every 10 market-rate houses or for every 30 jobs added. COAH

has justified this by systematically underrepresenting housing needs, ignoring nearly 500,000 households living in overcrowded or substandard

housing or spending more than 30 percent of their income on housing.

The inherent weakness of the new rules, however, is compounded by the following two provisions, each of which would have the effect of reducing the amount of affordable housing that will be built:

- COAH proposes to grant over 16,000 credits to more than 150 municipalities against their future growth-share obligations. In many cases, these credits appear to have no basis in actual housing production up to now in these towns. According to COAH's own 2001 annual report (the most recent available), Woodbridge, NJ, had not produced one housing unit despite a fair-share obligation of 1,351 units. COAH now proposes not only to find Woodbridge in compliance with its past obligations but also to grant it 281 credits against its future obligations as well!
- COAH proposes to provide bonus credits for activities such as providing rental housing units, count-

Yes: COAH Rules Encourage Affordable Housing and Smart Growth

...continued from page 3



Susan Bass Levin, Commissioner, New Jersey Department of Community Affairs

space, deterioration of our drinking water, and traffic congestion.

For instance, we want to make sure the third-round rules are consistent with the New Jersey State Development and Redevelopment Plan and that affordable housing sites are located in environmentally suitable areas. This will further protect our state's wetlands, historic sites, and environmentally sensitive areas such as the Pinelands, the Highlands, and the Mead-

owlands while increasing the quality of life that all New Jerseyans want, need, and deserve.

The third major advantage to the COAH rules is

that we have streamlined the way COAH works to ensure efficiency and reduce bureaucratic delays by shortening mediation times, ensuring quick turnaround time, and setting firm deadlines for all participants in the COAH process. In the past, municipalities sometimes participated in the COAH process for years. By expediting reviews, more affordable housing will be built more quickly.

Creating quality affordable housing for all New Jerseyans is crucial when planning for long-term growth throughout our communities. That is why the McGreevey administration has made the provision of affordable housing one of its highest priorities.

For instance, we understand the need to provide rental and homeownership opportunities for low- and moderate-income families, people with disabilities, and seniors

In the past, municipalities sometimes participated in the COAH process for years. By expediting reviews, more affordable housing will be built more quickly.

No: COAH Rules Are the Wrong Plan at the Wrong Time

ing each such unit produced as up to two units. COAH has never offered a scintilla of evidence to document that providing rental units is so difficult that developers or towns must be rewarded with bonuses. Each bonus granted reduces the number of units provided.

The latest COAH rules expired in 1999, but COAH's proposed new rules will not go into effect until 2004 at the earliest, and they do not require municipalities to take responsibility for growth-share obligations from 1999 to the present. This gives New Jersey's growing townships a "free pass" on affordable housing for a five-year period during which LMI housing needs have increased. Moreover, an analysis I've done finds that only 10,000 units—barely 1,000 per year—are likely to be built in the next decade under the proposed rules, rather than the 48,000 units projected by COAH.* This is less than half the number of units produced during the 1990s under COAH's auspices and, following the current five-year de facto moratorium on COAH-supported affordable housing production, is an especially meager offering.

COAH further proposes to increase the percentage of COAH-supported units that each municipality can restrict to senior citizens from the current 25 percent to 50 percent. As a result, the reduction in affordable housing production would have the greatest impact on LMI families with children—the families that make up the great majority of those with the most severe and most urgent housing needs. COAH has proposed this change despite compelling evidence that senior citizens make up even less than the 25 percent of total LMI needs reflected in the previous rules.

Indeed, since COAH proposes to make it easier for suburban municipalities to transfer 50 percent of their

COAH proposes to make it easier for suburban municipalities to transfer 50 percent of their fair-share obligations to urban centers through regional contribution agreements.

...continued on page 6

*"How Many Units Will Get Built" (Nov. 2003), available on the web at www.hcdnnj.org/policy/affordablehousing/index.htm.

Yes: COAH Rules Encourage Affordable Housing and Smart Growth

throughout New Jersey and are discussing ways to make sure the rules provide a variety of affordable housing choices for all of these constituencies. We also recognize the needs of very low-income households—those who earn below 30 percent of regional median income—and are looking for ways to assist them using financial resources generated through the COAH process. That is why we are looking at ways to provide incentives to municipalities to create more affordable rental and homeownership opportunities for low-income residents.

The COAH overhaul is just one way that the Department of Community Affairs (DCA) seeks to fulfill its commitment to affordable housing. In addition to the affordable units produced throughout the COAH process, DCA—in partnership with the New Jersey Housing and Mortgage Finance Agency—has provided more than \$2 billion in funding to help finance 17,526 affordable housing units in 499 municipalities throughout New Jersey since January 2002. Clearly, we are well on our way to meeting—and exceeding—Governor McGreevey's commitment to provide 20,000 affordable housing units by 2006.

Since the proposed third-round rules were announced in the summer of 2003, we have received feedback and suggestions from constituents, advocates, organizations, and individuals. A COAH task force has been reviewing these comments in order to make the rules work best for New Jersey's families and seniors. Their recommendations, based on the public comments we have received, will assist COAH in its goal of creating quality affordable housing opportunities for all of New Jersey's hard-working residents.

I hope that together we can move forward to realize our goals for New Jersey: to provide more affordable housing, to provide smart planning in our communities, and to work toward improving the quality of life for all of New Jersey's citizens.

For information, contact the New Jersey Department of Community Affairs at (609) 292-6055 or dca.feedback@dca.state.nj.us; www.state.nj.us/dca/coah.

No: COAH Rules Are the Wrong Plan at the Wrong Time ...continued from page 5

fair-share obligations to urban centers through regional contribution agreements, the upshot of the rules is clear. From now on, it appears that New Jersey's suburbs will be able to comply with their fair-share obligations without ever having to build or rehabilitate a single affordable housing unit for a family with young children.

The fundamental principle of the Mount Laurel decision was that New Jersey's municipalities have an

obligation to accommodate LMI housing needs. The proposed rules, while claiming to be consistent with that principle, vitiate it—to the point where it is hardly recognizable—by reducing the number of units likely to be built and skewing those units toward the households suburban officials are least likely to object to. Many senior citizens have housing needs, but it is not acceptable to take affordable housing opportunities away from the neediest

and most vulnerable members of society: the state's poorest families and their children. COAH has suggested that it will make changes to these rules before they are adopted. We can only hope that the changes will be more than cosmetic and will address these rules' deficiencies forthrightly and responsibly.

For information, contact Alan Mallach at (609) 448-5614 or a.mallach@att.net.

Arts District Invigorates Millville's Downtown

By Keith L. Rolland, Community Development Advisor

Millville, a city of 27,000 residents located on the Maurice River in Cumberland County, NJ, is making good progress in transforming a moribund downtown into a vibrant arts district.

Kim Warker, Ph.D., Millville's planning director, recalled that six years ago, city officials conceived a home-grown strategy to persuade visitors to spend a full day in the area instead of a half-day touring Wheaton Village or the Army Air Field Museum. Wheaton Village contains many examples of fine glass produced when Millville was the center of a thriving regional glassmaking industry in the late 1800s.

In 1998, the Millville Development Corporation, a nonprofit city affiliate that oversees the arts district, acquired a department store and an adjacent building, which were converted by a local developer into a gallery and community center known as the Riverfront Renais-



High Street between Mulberry and Pine Streets in Millville's arts district. (Photo by Melissa Kinney)

sance Center for the Arts. Furthering revitalization of the same block, the city enlisted Cumberland County College to open a ceramic studio and the Cumberland County Improvement Authority to renovate a vacant bank building into the authority's offices.

Marianne K. Lods, coordinator of the Glasstown Center Arts District, which organizes Third Fridays, a monthly event that regularly draws 1,500 to 2,000 people, said: "It's like an old-fashioned town on these Friday evenings, and it has a really good community feel to it." The district also holds free concerts and a fine arts festival.



Kim Warker, Ph.D., planning director for the City of Millville, NJ, stands in the arts district that she and other local leaders conceived six years ago.

Since 1998, 48 new businesses have located in the arts district, a two-block by six-block area that is mostly dedicated to the visual arts. These businesses—primarily galleries and retail stores—include eight that relocated from other parts of Millville. The arts district has flourished despite the presence of a nearby regional mall, which includes a Wal-Mart and several other “big box” stores.

Last year, business openings in the arts district consisted of six galleries or studios, three retail stores, three professional offices, and five restaurants, including the upscale Winfield’s, located in a former Woolworth’s building.

Since 1998, 48 new businesses have located in the arts district, a two-block by six-block area that is dedicated mostly to the visual arts.

Well before the arts district was conceived, the city had taken actions to improve the area’s infrastructure and maximize the beauty of its riverfront location. In the mid-1980s, the city used state funding to add new sidewalks, street lights, parking, and landscaping and to acquire, demolish, and remediate a gas station and recycling center along Millville’s waterfront. The city then used funds from a state-designated urban enterprise zone program to pay for brick sidewalks and lighting and help owners repair business facades.

“The pieces of the puzzle we had been working on for years came together at the same time,” Warker explained. “The infrastructure was there. But we never envisioned how big this would get. The market of artists that Millville was trying to attract was a tremendous one, but it was hidden under a rock. The artists were desperate for a common venue where they could be together. Once we reached out to them, the response was overwhelming. This invigorated us to go on.”

Warker said that the artists viewed Millville’s century-old downtown buildings “as irreplaceable pieces of history, not as white elephants—the older and more dilapidated the buildings, the better. The artists looked at the buildings and saw positive features, while most people saw negative things.” Most of Millville’s new artists live and work in the same properties.

Local residents were not easily impressed. “When we worked on the first block, they thought it was a

...continued on page 8



Marianne K. Lods, coordinator of the Glasstown Center Arts District since 2000, relaxes while a band plays at the Looking Glass Café in the Artisans’ and Designers’ Walk in Millville, NJ. A retrospective of paintings and prints by her late mother, a professional artist, was displayed at the time. The café is owned and operated by Lods’s son and his wife. Lods is a former executive director of the Greater Vineland Chamber of Commerce. (Photos above by Craig Terry)

Downtown property values have risen three to four times since 2000, and private investors are showing strong interest, Lods said. In a promising sign for Millville’s future, the district is attracting a new generation of business owners in their 30s and 40s, she added.

In a community development offshoot of the arts district, the city is requiring artists who receive “pioneer artist” grants to paint murals and engage in beautification activities in the city’s neighborhoods. Warker added that “both the city and the neighborhood associations are considering additional ways in which public art can become a significant part of the center-city neighborhoods.”

Arts District Invigorates Millville's Downtown ...continued from page 7

waste of public money," Warker said. "With the second block, they admitted that the downtown was starting to look better. With the third block, they understood there was a method to our madness. In time, the residents and the city government realized that Millville could be extraordinary—not just average or OK."

Residents got more enthusiastic as their children benefited from the arts district. Early on, the city created an annual summer arts program for young people and arts and craft programs linked to the schools. Some students are now pursuing arts-related education, partly with the help of federally funded job-training programs.

A substantial marketing campaign has been funded largely through state grants, including several from the New Jersey State Council on the Arts. Last fall, the state and city approved \$215,000 for an annual district marketing and advertising campaign.

Now that the district has been established, maintaining its interesting and vibrant character is a long-term challenge, Warker noted. Another

challenge is downtown property speculation, which is pricing some artists out and is leading the city to explore the feasibility of developing affordable artists' housing.

In January, the city started a pilot program to provide low-interest loans of up to \$10,000 for establishment of bed and breakfast lodging in the arts district. The program is targeted to owners of single-family residences located in residential areas surrounding the commercial district.

The city also plans to expand the boundaries of the district this year and create a farmers market that features local seasonal produce for tourists and residents alike. Biking and walking trails are being constructed along the river, while a marina that should attract many boaters will open next year. An artists' guild is also being formed to improve communica-

tion among city leaders, residents, and business owners. The city is exploring prospects for renovating a 96-year-old cinema once used for vaudeville as a multi-purpose facility.

Warker, who holds a doctorate in urban affairs and public policy from the

University of Delaware, observed that during the district's development "we all changed our idea of art. We've come to see the value of art in and of itself, rather than as just another redevelopment tool."

Noting that the arts district appeals to people who grew up in the area and are returning as retirees, Lods concluded: "One of the most important things about the arts district is the sense of pride that residents feel. This is a pretty neat place to live."

For information, contact Kim Warker at (856) 825-7000, ext. 329 or kwarker@ci.millville.nj.us, or Marianne K. Lods at (856) 293-0556 or marianne@glasstownartsdistrict.com.

Still a challenge is downtown property speculation, which is pricing some artists out and is leading the city to explore the feasibility of developing affordable artists' housing.

CRA Investments Posted; *Cascade* Becomes Quarterly Publication

Updated Community Affairs web pages include a new section on CRA investment opportunities. In addition, a resources/links section contains useful web sites for data, government agencies, small-business assistance sources, and other areas. The Community Affairs home page is at www.phil.frb.org/cca/index.html.

Starting in 2005, *Cascade* will be published four times a year, instead of three. *Cascade* readers are encouraged to sign up for e-mail notification, which will enable them to see the latest issue as soon as it becomes available. To receive this notification, go to www.phil.frb.org/phil_mailing_list/dsp_user_login.cfm.

Church-Based CDC Helps Build Assets and Skills in Delaware

By Keith L. Rolland, Community Development Advisor

Nehemiah Gateway Community Development Corporation, a church-based organization in Wilmington, has organized one of the most successful earned annual income tax credit (EITC) campaigns in the country and has begun to strengthen home-based child-care providers in Delaware.

The community development corporation (CDC), a four-year-old affiliate of Shiloh Baptist Church in Wilmington, has organized EITC campaigns during the past three years, including statewide campaigns in 2003 and 2004. This year, 300 volunteers prepared tax returns at 15 IRS volunteer income tax assistance (VITA) sites for about 4,800 residents, of whom about 35 percent applied for EITCs. Last year, 120 volunteers prepared returns for about 2,850 residents at 12 sites.

John Wancheck, EITC campaign coordinator at the Center on Budget and Policy Priorities in Washington, says that the Delaware campaign has been one of the best in the country. He attributes the campaign's

success to its extensive planning and organization, its ability to engage leaders in the business, educational, and governmental sectors, and its comprehensive approach. When Delaware residents came to VITA sites seeking free tax preparation and EITC refunds, site managers assisted some of the residents in opening savings accounts with PNC Bank (Delaware) and provided

information and referrals for financial-education courses, a computer-purchase plan, individual development accounts (IDAs), and public-benefit programs.

Similarly, Nehemiah Gateway requires residents who want a computer to take a financial-education course. In this program, residents must open a bank savings account and save \$250, of which \$175 is matched by the CDC for purchasing a computer. Nehemiah Gateway buys reconditioned computers from PerScolas, a New York-based nonprofit.

"There has to be a hook or incentive to interest residents in financial education," says Mary Dupont, executive director of Nehemiah Gateway. "You must give residents something of value that they really want. You also need a great teacher, ideally a community person who knows how to work

with people." The CDC provides its own six-hour financial-education course, which has served more than

400 EITC program participants, and sometimes refers residents to Delaware Money School classes.

Some home-based child-care providers arrived at EITC sites in 2003–04 with "bags of receipts," Dupont recalled, and the CDC gradually became aware that there are 2,000 home-based child-care providers in Delaware. Many of

The CDC greatly benefits from the unique banking environment in Delaware. About 40 percent of its budget is funded by banks.

the providers care for low-income children and accept state-subsidized payments that are far below market rates. In response, Nehemiah Gateway designed tax and record-keeping courses that now count toward a state continuing education requirement. During the process, the CDC walks participants through applications for business loans from the First State Community Loan Fund.

Nehemiah Gateway's training center has provided computer instruction, life skills, and job placement services to 140 disadvantaged adults, about 65 percent of whom have stayed in permanent full-time positions. Its IDA program has 75 participants, and the CDC has held two "business expos"—the second of which attracted 1,000 people and involved 21 churches and 170 small businesses. Early this year, the CDC started a car loan program that has made 12 loans to working parents.

The CDC, with a staff of nine full-time equivalents and an \$800,000 budget, greatly benefits from the unique banking environment in Delaware and the presence of many limited-purpose and wholesale banks. About 40 percent of its budget is funded by banks. Dupont

...continued on page 10

Church-Based CDC Helps Build Assets and Skills in Delaware

...continued from page 9

notes that several CRA officers have played a valuable role in “brainstorming and helping to design programs and innovations.”

Dupont, who previously was director of the YWCA of New Castle County’s Women’s Center for Economic Options and a consultant to the Corporation for Enterprise Development, noted that two Nehemiah Gateway programs that explicitly enlist the spiritual motivation of residents are funded by a local family foundation.

Rev. Clifford I. Johnson is pastor at

Shiloh Baptist Church, which was founded in 1876 and is the oldest African American Baptist church in Delaware. Before earning a doctorate in urban ministry and becoming Shiloh’s pastor in 1997, he was a managing partner at Marsh and McLennan Companies in New York while he also served in a part-time position as a minister.

Reverend Johnson, who is the CDC’s president and CEO, said that he founded Nehemiah Gateway because he wanted to have more “impact in transforming communities”

than is normally possible through traditional church food, clothing, and other human-service programs. He said that churches thinking of starting CDCs should form a small planning group within the congregation prior to incorporation, build capacity in-house, learn from the successes and failures of other church-based CDCs, and emphasize integrity in operations.

For information, contact Mary Dupont at (302) 655-0803 or mary@marydupont.com.

Delaware Bank Takes Flexible Approach for EITC Savers

PNC Bank, Delaware, expedited the opening of savings accounts at volunteer income tax assistance sites (VITA) in Delaware during the 2003 and 2004 tax seasons through a partnership with Nehemiah Gateway Community Development Corporation.

The accounts were opened at the VITA sites, instead of at bank branches as is PNC’s normal practice, by low- and moderate-income residents filing tax returns and applying for federal earned income tax credits (EITCs). The site managers called an 800 number established by the bank specifically for this purpose and received temporary account numbers that were used to

file tax returns electronically. The bank subsequently contacted Chex-Systems to identify any applicants who had a history of mishandling accounts and mailed signature cards to approved applicants. The accounts were actually opened once the EITCs were deposited by the U.S. Treasury.

PNC Bank, Delaware, provided the accounts without charge for a year and waived its \$300 minimum-balance requirement for that period.

The bank opened more than 112 accounts totaling \$144,582 from January to April in 2004 and 140 accounts totaling approximately \$110,000 for the comparable period

in 2003, according to Norma H. Zumsteg, a PNC Bank community consultant and vice president. She says about 40 percent of the 140 accounts begun in 2003 were still open in March 2004. In 2002, EITC filers were instructed to go to local branches of PNC Bank, but few did.

“We have been excited to participate in this initiative because it’s a creative way of serving the needs of the unbanked,” says Zumsteg. “It takes a special nonprofit for a bank to have such a level of trust that it will make exceptions to its policy.” She says PNC offers this expedited opening of accounts only in Delaware but is exploring ways to apply its experience in other markets.

New Markets Tax Credit Allocations Made to NJEDA, TRF, and GSA Management

The Community Development Financial Institutions (CDFI) Fund has made second-round allocations of new markets tax credits (NMTC) to three entities in the Third Federal Reserve District: the New Jersey Economic Development Authority (NJEDA), The Reinvestment Fund (TRF), and GSA Management, LLC.

NJEDA received a \$125 million allocation for statewide use for economic development loans to businesses and real estate development projects and construction loans for the development of for-sale housing.

TRF received a \$38.5 million allocation to provide real estate financing to small businesses, financing to nonprofit community facilities such as day-care centers and charter schools, and financing for retail centers. TRF will serve southeastern Pennsylvania, central and southern New Jersey, and northern Delaware, with a special focus on communities more distressed than NMTC-eligible areas, according to the CDFI Fund.

GSA Management, LLC, received a \$35 million allocation to provide capital to franchise-oriented busi-

nesses and franchise-focused real estate projects in a 14-state region that includes Delaware, New Jersey, and Pennsylvania.

For information, contact Caren Franzini at (609) 777-4471 or cfranzini@njeda.com, Jeremy Nowak at (215) 574-5899 or jeremy.nowak@trfund.com, and Michael J. Kelley at (302) 658-9230 or mkelley@gsamanagement.com. Further information on the allocatees and the NMTC program is available at www.cdfifund.gov.

Wilmington Native Is Appointed Federal Reserve Division Director

Sandra F. (Sandy) Braunstein has been appointed director of the Division of Consumer and Community Affairs (DCCA) of the Board of Governors of the Federal Reserve System.

In her previous position as senior associate director and community affairs officer in DCCA, she oversaw implementation of community and economic development policies and programs and held consumer-education and research responsibilities.

DCCA, which has 85 staff members, implements federal banking and credit consumer-protection laws, fa-

cilitates community development, and promotes access to banking services in underserved markets.

Braunstein, who was born and raised in Wilmington, DE, joined the Federal Reserve System in 1987. She previously served as executive director of the Northeast Community Development Corporation in Washington, DC, director of commercial revitalization for the city of Alexandria, VA, and a management consultant. Earlier, she held several positions in which she administered federal programs for the city of Wilmington.



Sandra F. (Sandy) Braunstein

Calendar of Events

Congress of the New Urbanism Regional Council

September 23–24, 2004, Union League of Philadelphia

The meeting will focus on a presentation and critique of new urbanist projects in Philadelphia and the region; an analysis of new urbanist techniques, codes, and financing; and a discussion of new urbanist opportunities in Philadelphia and the region.

For information, contact Jennifer Hurley at (215) 988-9440 or JLHurley@hfadesign.com; www.anupa.org.

U.S. Conference of Mayors' National Dollar Wi\$e Campaign

September 27–October 1, 2004 — The campaign culminates with Dollar Wi\$e Week when participating mayors will promote new financial-literacy programs or highlight existing ones.

For information, see dollarwiseonline.org.

Building Blocks for Inclusive Communities

October 21–23, 2004, Cherry Hill Hilton, Cherry Hill, NJ

A national conference on creating racially and ethnically diverse, economically thriving communities, sponsored by the Fund for an Open Society (OPEN).

For information, visit www.opensoc.org or call (215) 546-0511.

Vacant Property in Pennsylvania Cities and Towns—Implementing Reinvestment Strategies: Successes and Challenges

December 7, 2004, Radisson Penn Harris Hotel and Conference Center, Camp Hill, PA. This, the third annual conference on vacant property reclamation in Pennsylvania, will feature discussions with legislative leaders, a report from the administration of Governor Edward G. Rendell on its economic stimulus program, and presentations on community-revitalization successes and challenges.

For information, contact Elizabeth G. Hersh of the Housing Alliance of Pennsylvania at (215) 576-7044 or liz@housingalliancepepa.org.

Promises and Pitfalls: As Consumer Finance Options Multiply, Who Is Being Served and at What Cost?

April 7–8, 2005, The Capitol Hilton, Washington, DC

For information, contact CA-Researchconference@clev.frb.org.

Temple University Initiatives Spur Development

Temple University initiatives are sparking a renaissance at the university's main campus in North Philadelphia. Temple has conceived and executed a series of public-private partnerships that have created more than 700 student housing units, partly through the conversion of old industrial buildings. It has also embarked on a \$400 million capital improvement program for the construction of several major teaching and research facilities.

An excellent article on these initiatives appeared in the May 20, 2004, issue of *The Temple Times*. Entitled "Temple Growth Spurring North Philadelphia Development," it may be viewed at www.temple.edu/temple_times.

10 Ways to Reinvent Rural Regions

An article on 10 ways to reinvent rural regions appeared in the November 2003 issue of *The Main Street Economist*, produced by the Federal Reserve Bank of Kansas City's Center for the Study of Rural America.

Another noteworthy article, which appeared in the publication's March 2004 issue, suggests that rural stakeholders need new forward-looking measures of competitive capacity, gauging, for example, a region's workforce, lifestyle, innovation, and financial and informational capacity. These measures will be discussed in future issues of the publication.

The Center for the Study of Rural America tracks rural and farm economic trends and focuses on rural economic and policy issues. The articles may be viewed at www.kc.frb.org.

Standard and Poor's Revises Criteria for Mortgage-Backed Securities

Standard and Poor's Ratings Services has announced that it will require additional credit enhancement for certain loans that are governed by anti-predatory lending laws and that are included in its rated mortgage-backed securities.

Standard and Poor's said on May 13, 2004, that it will require additional credit enhancement for loans covered by anti-predatory lending laws that it believes contain subjective or unclear standards—such as poorly or undefined net tangible benefit and repayment-ability tests—in determining whether loans are “predatory.”

Standard and Poor's, which made the changes following a comprehensive year-long review of more than

40 federal, state, and local anti-predatory laws, said it anticipates that an increasing number of loans governed by these laws are likely to be included in its rated transactions.

It said it will continue to exclude from its rated pools high-cost home loans as defined in New Jersey's anti-predatory law.

The additional credit enhancement is based on Standard and Poor's assessment of potential losses in the securitization, including such factors as the number of successful lawsuits likely to be asserted against the issuer, statutory borrower rights, and the maximum potential damages that could be awarded.

Standard and Poor's identified some

jurisdictions, including Pennsylvania, in which existing anti-predatory lending laws do not impose any additional assignee liability.

The rating agency said that it may waive additional credit enhancements if a seller of loans meets financial-capacity requirements. It noted that in assessing risks from anti-predatory lending laws, it looks for clear language that enables originators or sellers to comply with the law.

For information, contact Scott Mason at (212) 438-2539 or scott_mason@standardandpoors.com, or Susan Barnes at (212) 438-2394 or susan_barnes@standardandpoors.com; www2.standardandpoors.com.

District News

C. Sean Closkey, former executive director of the New Jersey Housing and Mortgage Finance Agency (NJHMFA), has become director of neighborhood investment strategy at The Reinvestment Fund.... **Marge Della Vecchia**, previously chief of staff in the New Jersey Department of Community Affairs, has become NJHMFA's new executive director.... Three Delaware bankers joined non-profit housing leaders earlier this year in speaking before Delaware legislative committees recommending adoption of a five-year affordable-housing plan and funding to support the plan. The bankers are **Lorraine deMeurisse**, vice president of community development at Deutsche Bank Trust Company Delaware; **Helen M. Stewart**, vice

president of community development at JP Morgan Chase; and **Terri Hasson**, vice president and CRA officer of Citibank Delaware.... **Woodie A. Pagan** of Rural Opportunities, Inc., recently started identifying affordable-housing and other real estate development opportunities for farmworkers in rural areas of Pennsylvania and New Jersey. Based in Philadelphia, Pagan is an attorney who previously was CEO of a community development corporation in Puerto Rico, COO of the State of New York Mortgage Agency, and an administrative law judge. He may be reached at (215) 203-3168 or wpagan@ruralinc.org.... **Martin Bierbaum** is executive director of the Municipal Land Use Center,

an affiliate of The College of New Jersey that will help municipalities in Hunterdon, Mercer, Middlesex, Monmouth, and Somerset counties to implement smart-growth plans. He may be reached at (609) 771-2831 or bierbaum@tcnj.edu; www.tcnj.edu.... **Carlos Peraza**, former director of the Philadelphia office of the Local Initiatives Support Corporation (LISC), has joined the Society Hill office of Prudential, Fox and Roach Realtors.... **Art Garcia**, previously administrator of USDA's Rural Housing Service and a former lender, is the new director of the CDFI Fund.... Two reports on the **New Markets Tax Credits** program produced this spring by CEOs for Cities can be found at

...continued on page 16



Predatory Lending: How Pervasive Is It?

In 2003, a landmark settlement was reached in a mortgage-lending action brought by multi-state attorneys general and financial regulators against Household Finance Corporation (HFC) and Beneficial Finance Corporation (BFC). HFC/BFC, which were charged with engaging in various predatory-lending practices, agreed to make available up to \$484 million to resolve consumer complaints.¹

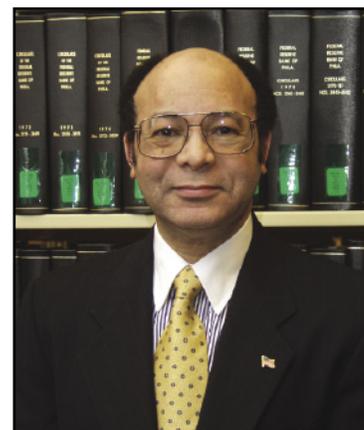
That predatory lending exists is not disputed. What is at issue is the degree to which it is widespread. Activists who champion the rights of consumers claim that predatory lending is pervasive in our lending marketplace. However, industry officials maintain that it is not so prevalent. Notwithstanding the previously mentioned settlement, the accurate documentation of the extent of predatory lending remains a bone of contention. What follows is a summary of a recent study on mortgage-lending practices that focuses on this issue and an opposing view of the study's methods and conclusions. The discussion underscores the difficulty in reaching a consensus on the magnitude of predatory lending in the U.S.

In December 2003, the National Community Reinvestment Coalition (NCRC) released a study of subprime lending in 10 large metropolitan areas.² On the basis of its analysis, the NCRC contends that "the credit system is broken and discrimination is widespread in America." The NCRC offers several recommendations covering proposed legislative initiatives and actions that should be undertaken by

lenders, community groups, and consumers. However, the study did not go unchallenged. Economists at the Mortgage Bankers Association (MBA) took issue not only with the general findings but also with the nature of the analysis used in the study and the consequences of the proposed recommendations.

Premise of the Study

The NCRC begins the report on its study by making a distinction between a subprime loan and a predatory loan. The former is a loan that has a higher-than-market rate of interest to compensate for the risk of lending to a borrower with less-than-perfect credit. The latter is defined as a subset of subprime loans and, as stated in the report, includes one or more of the following attributes: a lender charges more in interest and fees than is required to cover the added risk of lending to borrowers with credit imperfections, does not take into account the borrower's ability to repay the loan, or violates fair-lending laws by targeting women, minorities and communities of color; or the loan contract contains abusive terms and conditions that trap borrowers and lead to increased indebtedness. Then, the NCRC summarizes its primary finding: "Using the best available industry data on creditworthiness, NCRC uncovered a substantial amount of predatory lending involving rampant pricing discrimination and the targeting of minority and elderly communities."



Marvin M. Smith, Ph.D.
Economic Education Specialist
Community Affairs Department

The MBA takes exception to this characterization of the analysis, since it believes the NCRC's results merely describe the presence and attributes of subprime lending without proving the existence of its predatory lending criteria. This fundamental difference is the basis of the disagreement between the two organizations' views of the validity of the study.

Data and Methodology

The NCRC conducted separate analyses for home-purchase and refinance lending in 10 metropolitan statistical areas (MSAs) selected from different regions of the U.S. It used information for home lending from the 2001 Home Mortgage Disclosure Act (HMDA) database, 1999 credit-scoring data from one of the three large credit bureaus, and demographic information from 1990 census tracts. To identify a loan as subprime, the NCRC relied on a

¹ HFC/BFC were alleged to have overcharged borrowers with fees and interest and to have misled customers about other loan terms, such as balloon notes and credit insurance.

² "The Broken Credit System: Discrimination and Unequal Access to Affordable Loans by Race and Age." The metropolitan areas were Atlanta, Baltimore, Cleveland, Detroit, Houston, Los Angeles, Milwaukee, New York, St. Louis, and Washington, DC.

Predatory Lending: How Pervasive Is It?

list of subprime lenders compiled by the U.S. Department of Housing and Urban Development (HUD). For a lender to be included on the list, more than 50 percent of the loans in its portfolio had to be subprime.

A key set of variables used in the NCRC's study were credit scores. These scores measure the likelihood of future delinquencies and foreclosures. In the NCRC's study, scores ranged from 0 to 1000, and lower scores indicated a lower risk of borrower default.³ For use in the analysis, the NCRC constructed five equal categories of risk or quintiles: very low, low, moderate, high, and very high. The NCRC adjusted the database for each census tract to include the number and percent of neighborhood residents in each of the five risk categories.

The NCRC used multivariate regression analysis to explain the percentage of subprime loans in a census tract while controlling for various demographic, economic, and risk factors. It found that after it took into account risk, housing-market conditions, and other factors, the level of subprime lending for refinance increased in **nine** of the **10** MSAs as the proportion of African-Americans in a neighborhood increased but in only **six** of the **10** MSAs for home-purchase lending. Similarly, the portion of subprime refinance lending increased in **seven** of the **10** MSAs when the number of residents over 65 increased in a neighborhood but in only **three** of the **10** MSAs for home-purchase lending.

The MBA raises several concerns about the data and analytical approach used by the NCRC. First, it questions the use of data (HMDA, credit scores, and census) collected more than 12 years apart by various sources. The MBA doesn't believe the implicit assumption that nothing

substantive changed in credit conditions, markets, neighborhoods, or individual financial conditions during this period. Since the NCRC cannot identify any specific loan as a subprime loan, the MBA questions the NCRC's use of HUD's list of subprime lenders that self-reported that over 50 percent of their loans are subprime. According to the MBA, this implies that up to 50 percent of the loans of some of the lenders classified as subprime are really prime loans. Likewise, some of the lenders not classified as subprime (i.e., less than half of their business consists of subprime loans) also make subprime loans but are excluded from the analysis. Thus, the data may well misrepresent the true marketplace.

The MBA also has reservations about the NCRC's decision to separate credit scores into quintiles. Such a division suggests that one of the quintiles contains credit scores between 600 and 800. The MBA indicates that based on its information, this range contains not only the majority of prime loans but also a large share of subprime loans. Consequently, the MBA doubts that the credit-score variable adequately distinguishes between the prime and subprime markets.

Finally, the MBA suggests that when the NCRC interprets the results of its analysis, it confuses correlation with causality. Correlation indicates a relationship between two variables. Causality implies a cause-and-effect relationship between two variables such that a change in one variable causes a change in the other variable. Thus, the MBA maintains that the NCRC is overstating its findings if it claims to have demonstrated causality when it is presenting only a correlation.

NCRC's Recommendations

On the basis of its analysis, the NCRC makes several recommendations, among them: Congress should enact comprehensive anti-predatory lending legislation; bank regulatory agencies should expand coverage of the Community Reinvestment Act (CRA) to include independent mortgage companies and all non-depository affiliates of banks; the Federal Reserve Board of Governors should intensify its anti-discrimination and fair-lending oversight; and federal agencies should be more diligent in enforcing the fair-lending laws in the case of nonbank lenders.

The MBA contends that the implementation of the NCRC's recommendations would result in deterioration in the efficiency of credit markets, which, in turn, would lead to a rise in the cost of credit for everyone, including those the policy proposals are designed to help. Thus, a whole group of borrowers might be locked out of the market because they can't afford the cost of credit necessary to compensate for the risk of lending to them.

Epilogue

No doubt the NCRC would have some responses to the criticisms raised by the MBA. However, the exchange, as presented, is informative. One important lesson learned from the preceding discussion is that although predatory lending might be a subset of subprime lending, the two should not automatically be considered the same. Specific actions by lenders must be *identified* as abusive before their behavior is considered predatory. Nonetheless, it is fair to say that the issue about the extent of predatory lending in the U.S. has yet to be resolved.

³ The NCRC's use of credit scores differs from their use by credit reporting agencies in two main respects. One, the NCRC's study includes individuals with no credit score. Therefore, the NCRC's range starts with zero while the range for credit reporting agencies starts at 300. Two, the NCRC's interpretation of the range of scores reverses agencies' interpretation. According to the agencies' scores, a lower score indicates a higher risk of borrower default and a higher score means lower risk.

District News

...continued from page 13

www.ceosforcities.org/research/index.htm.... **The U.S. Conference of Mayors** has started a national campaign to encourage mayors to participate in financial-education campaigns through community coalitions. Mayors are to promote local financial-education programs during Dollar Wi\$e Week from September 27 to October 1, 2004. For information, call Carolyn Merryweather at (202) 861-6759 or see dollarwiseonline.org.... **A Practitioner's Guide to Combating Predatory Lending**, which describes nonprofit and public prevention and intervention strategies, may be accessed at www.lisc.org. The report was compiled by the Neighbor-

hood Reinvestment Corporation and LISC.... **Wachovia Corporation** received Fannie Mae's Community Lending Hero Award for outstanding commitment to community lending and demonstrated excellence in helping reach underserved markets.... **Project H.O.M.E.** in Philadelphia received an award from the National Law Center on Homelessness and Poverty for addressing root causes of homelessness.... The latest issue of the Philadelphia Fed's *SRC Insights* contains articles on the final rule amending Regulation B, which implements the **Equal Credit Opportunity Act**, and on the difference between loan pre-

approval and pre-qualification. See www.phil.frb.org/src/srcinsights/index.html.... **LISC's** electronic newsletter has useful information on conferences, funding opportunities, and resources. To subscribe, go to www.lisc.org/resources/register.... The **Housing Alliance of Pennsylvania** has published *Addressing Community Opposition to Affordable Housing Development: A Fair Housing Toolkit* and has held a conference on this subject. To obtain a copy of the publication or to learn about ongoing work in this area, contact the alliance at (215) 576-7044 or info@housingalliancepa.org.

— Keith Rolland

CASCADE

Federal Reserve Bank of Philadelphia
100 N. 6th Street
Philadelphia, PA 19106-1574

ADDRESS SERVICE REQUESTED

PRESORTED STANDARD

U.S. POSTAGE PAID
Philadelphia, PA
PERMIT No. 529