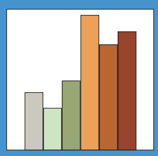

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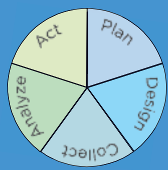

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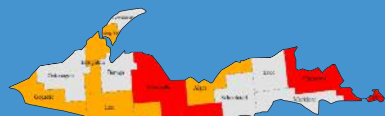

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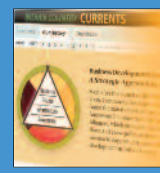

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July 2011

Community Dividend

Published by the Community Development Department of the **Federal Reserve Bank of Minneapolis**

Measuring the impact of community development: A conversation with Paul Mattessich of Wilder Research

By Ela Rausch

Community development practitioners want to be more effective. Their funders want to gauge the value of their investments. Policymakers want to demonstrate cost savings. And everyone wants to know: How did the community really benefit?

The ability to measure results has become increasingly important for community development organizations and other entities that rely on government and philanthropic funding to carry out their work. Those of us in the community development field know our work is valuable, but how can we effectively measure its impact? How can we keep the costs and complexities of a measurement system from getting out of hand? And how does our work affect broader community trends? To explore these questions, *Community Dividend* spoke with Paul Mattessich, Ph.D., executive director of Wilder Research.

A division of the Amherst H. Wilder Foundation in St. Paul, Minn., Wilder Research is one of the largest and most prominent nonprofit research institutions in the United States. Since 1917, Wilder Research has conducted hundreds of studies on community conditions and the effectiveness of health and human service programs. Mattessich has headed Wilder Research since 1982. In addition to leading projects and studies, he frequently lectures and writes on the topics of social trends, community building, and organizational effectiveness.

PHOTO BY STAN WALDHAUSER

Paul Mattessich

Community Dividend: You've led a number of projects at Wilder Research that involve measuring program effective-

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Recent rule changes expand definition of community development under the CRA

By Paula Woessner

The federal financial regulatory agencies[1] recently issued changes to the Community Reinvestment Act (CRA) rules in an effort to encourage financial institutions to help stabilize foreclosure-ravaged communities. The rule changes, which took effect January 19, 2011, expand the CRA's definition of community development to include certain activities that support the objectives of the U.S. Department of Housing and Urban Development's $7 billion Neighborhood Stabilization Program (NSP). The NSP provides grants to government entities and nonprofit organizations for the purpose of facilitating or participating in the purchase and redevelopment of foreclosed properties. (For more on the NSP and eligible uses of NSP funds, see the "NSP 101" sidebar on page 6.)

Under the rule changes, financial institutions can receive favorable CRA consideration for "loans, investments, and services … that support, enable, or facilitate projects or activities"[2] that are consistent with the NSP's requirements. The supported projects and activities do not have to be NSP-funded, but they must meet one or more of the NSP's five eligible-uses criteria. The supporting loans, investments, and services must benefit low-, moderate-, and middle-income people or geographies located in NSP target

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Recent demographic data reveal effects of economic slowdown in Indian Country

By Michael Grover

Between 1990 and 2000, several important demographic indicators revealed broad socioeconomic improvements for the 45 American Indian reservations[1] located in the Ninth Federal Reserve District. On average, household incomes of reservation residents increased, even after adjusting for inflation, and poverty and unemployment rates declined.[2] Recently released data from the U.S. Census Bureau's American Community Survey (ACS)[3] suggest that these positive economic trends have continued on some reservations in the Ninth District. However, the data also reveal that during the recent recession and economic slowdown, poverty and unemployment rates on a number of reservations edged higher and incomes stagnated or declined. Fortunately, most reservations have held on to the gains made between 1990 and 2000, despite the recent setbacks.

The ACS data, released in early 2011, provided researchers with an opportunity to revisit demographic trends that have been recorded on reservations during decennial censuses. The data differ from decennial census data in one important way: the ACS estimates represent the average characteristics of population and housing for the period from January 2005 through December 2009 and do not represent a single point in time. The numbers used to calculate the average characteristics are from an annual survey of roughly 3 million households in the United States. The survey, which replaces the long form used in decennial censuses, provides demographic information on relatively

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Community Dividend is published by the Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291; 612-204-5000. It covers topics relating to community development, reinvestment, and neighborhood lending. It reaches financial institutions, community-based and development organizations, and government units throughout the Ninth Federal Reserve District.

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Recent demographic data reveal effects of economic slowdown in Indian Country

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small and lightly populated geographic areas, such as American Indian reservations, on a relatively frequent basis.

When compared to data from the previous decade of 1990–2000, the new ACS data reveal a number of notable findings. For example, between 2000 and 2005–2009, reservation populations in the states that make up the Ninth District (Minnesota, Montana, North Dakota, South Dakota, Upper Michigan, and northwestern Wisconsin) grew more slowly than during the previous decade. Between 1990 and 2000, the average annual growth rate was 1.8 percent, compared to just 0.3 percent per year after 2000. Between 2000 and 2005–2009, unemployment rates increased by an average of 2.4 percent across all reservations, while poverty rates remained largely unchanged. Whereas inflation-adjusted median household incomes rose on 9 out of every 10 reservations in 1990–2000, fewer reservations (4 out of every 10) recently posted increases in median household income. The vast majority of reservations continue to have lower incomes and higher rates of unemployment and poverty than their respective states. These unemployment- and income-related trends are discussed in greater detail below. First, we take a closer look at the findings related to population growth.

Population growth subsides

The estimate of the total number of people who live on Ninth District reservations increased by a little over 3 percent between 2000 and 2005–2009, a rate considerably lower than that of most states in the Ninth District and the nation as a whole. This muted population growth contrasts with a robust period of growth in the 1990s, when reservations added roughly 18 percent to their total population.

In aggregate, no state in the Ninth District had a net loss of reservation population during the period 2000–2005-09. However, as Figure 1 illustrates, growth rates varied among states; some had little or no growth (e.g., North Dakota) and others had modest gains (e.g., South Dakota). During the 1990s, only two Ninth District reservations, the Lake Traverse Reservation in South Dakota and the Fort Peck Reservation in Montana, had population declines. After 2000, 14 reservations experienced population declines. The less populous reservations tended to experience the greatest fluctuations in their population after 2000. For example, the population of the Sakaogon Chippewa Reservation in north central Wisconsin fell from 379 to 311, an 18 percent decline. Larger and more populous reservations experienced more modest changes in their populations, except for one prominent reservation. The Pine Ridge Reservation in South Dakota experienced a 20 percent increase in population between 2000 and 2005–2009, growing from 15,542 residents to 18,629. Since 1990, the Pine Ridge Reservation has grown by 6,500 residents (54 percent).

When considering these numbers, it is important to note that not all reservation residents are American Indian, and not all American Indians live on reservations. The proportion of Ninth District reservation residents in 2005–2009 who were American Indian ranged from a low of 22 percent on the Mille Lacs Reservation in north central Minnesota to a high of 94 percent on the Rocky Boys Reservation in eastern Montana. On average, in 2005–2009, 60 percent of the population of Ninth District reservations was American Indian. In some states, the majority of the American Indian population lives off-reservation. For example, only about one-quarter of the American Indians in Minnesota live on the state's reservations. In other Ninth District states, that proportion is much higher—especially in South Dakota, where roughly two-thirds of American Indians reside on reservations.

During the earlier decade in our comparison, reservation population growth was largely fueled by American Indians. In fact, 70 percent of the increase from 1990 to 2000 was attributable to increases in the American Indian population. By contrast, American Indians accounted for only 40 percent of the more recent and modest population growth after 2000.

Economic well-being holds its own

In addition to recent, modest changes in reservation population, several indicators of economic well-being from the ACS data suggest that reservations have largely "held their own" since 2000. In fact, indicators for some reservations continue to show signs of improvement, even though they lagged behind indicators for their respective states.

Median household income

Median household incomes on reservations, after adjusting for changes in price levels over the decades, grew more slowly after 2000, due likely to the recession and economic slowdown in the broader economy. Between 2000 and 2005–2009, 40 percent of reservations in the Ninth District had rates of median income growth that were lower than the rates for their state. Similar data trends were observed for adjusted per capita income over the decade. By comparison, the share of reservations with below-state growth rates in 1990–2000 was 20 percent. Only three reservations had median household income estimates that were higher than their state estimate. They are the Lower Sioux Reservation, Prairie Island Reservation, and Shakopee Mdewakanton Sioux Reservation, all located in Minnesota within a reasonable driving distance of the Twin Cities metropolitan area. Their higher incomes may be related to the fact that all three reservations had strong casino revenue[4] during the economic downturn.

A total of 21 reservations had declines in their median household income after 2000, compared to only 5 during the previous decade. For example, the median household income on the Lac Courte Oreilles Reservation in northern Wisconsin dropped by 12 percent, from $32,135 in 2000 to $28,277 in 2005–2009. On some of the 21 reservations, it is likely that declines in casino revenue during the economic downturn contributed to the declines in median household income. While median household incomes have dropped for nearly half of the reservations since 2000, almost all of the Ninth District's reservation households still had higher median incomes in 2005–2009 than in 1990. Only three reservations had income estimates that were lower than their inflation-adjusted 1990 estimates: the Fond du Lac Reservation in Minnesota, the Minnesota Chippewa Land Trust, and the Lower Brule Reservation in South Dakota.

Unemployment

In 2005–2009, as much of the country was affected by the recession, unemployment rates for Ninth District reservations remained high compared to their respective state estimates. In 2005–2009, reservations reported a 17.4 percent unemployment rate, which was similar to the rate in 1990 (17.8 percent) and roughly 2 percent higher than the rate in 2000 (15 percent). In

2005–2009, the widest gap in unemployment rates (15.4 percentage points) occurred in South Dakota, where reservations had, on average, a 20 percent unemployment rate, compared to a rate of 4.6 percent for the state as a whole. The narrowest gap (8.6 percentage points) between reservations and the state occurred in Michigan. However, the Sault Ste. Marie Reservation in Michigan reported the highest unemployment rate among all the reservations in the Ninth District (37 percent).

Poverty

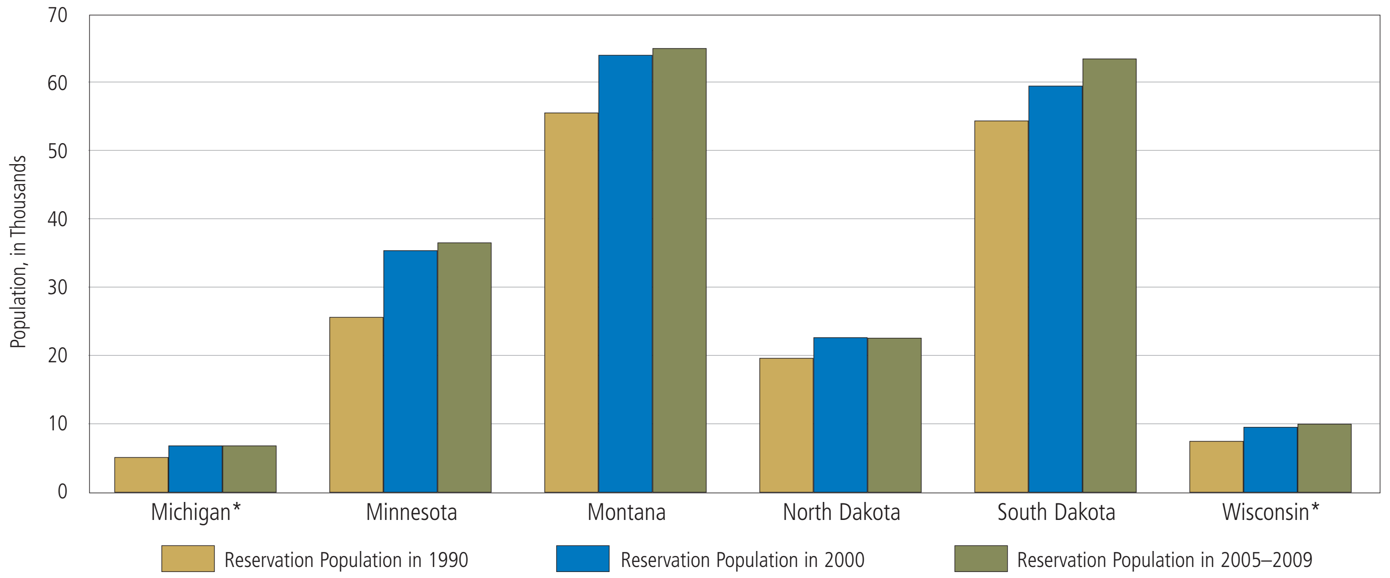
Did the economic downturn force more reservation residents into poverty? The ACS data suggest that the poverty rate for reservations in the Ninth District as a whole actually declined by 0.4 percent between 2000 and 2005–2009. Poverty rates for Montana and South Dakota reservations declined in aggregate, while rates in the other four Ninth District states edged upward from their 2000 estimates. See Figure 2.

While the majority of individual reservations (40 out of 45) saw poverty rates decrease between 1990 and 2000, only about half of all reservations saw a continued decline after 2000. Some of the recent declines were dramatic, but most of these happened on less populous reservations, such as the Bois Forte Reservation in Minnesota, which saw poverty decline from 29 percent in 2000 to 13.4 percent in 2005–2009. Even with dramatic declines between 1990 and 2000, and further declines for about half of the reservations afterward, Ninth District reservations had poverty rates in 1990, 2000, and 2005–2009 that were considerably higher than their respective state averages.

There's more work to be done

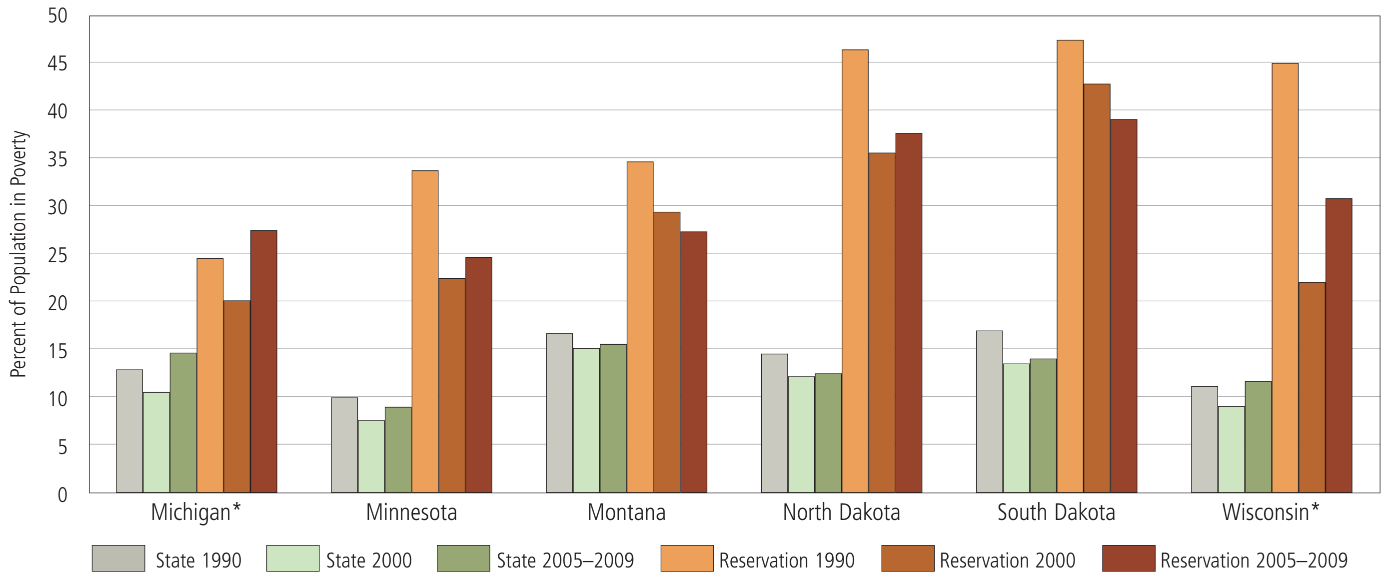
Demographic indicators for American Indian reservations in the 1990s revealed important improvements in economic conditions. However, the recent recession and economic downturn, as reflected in the up-to-date reservation-level ACS data, reveal that for some reservations, these trends have since worsened or stayed the same. In particular, poverty and unemployment rates have edged higher, while incomes have stagnated or declined. Although state-level data tell roughly the same story about the impact of the recession and economic downturn, it is important to remember that sizable differences in baseline income, employment, and poverty measures still exist between reservations and their respective states. The recent ACS data strongly suggest that more work needs to be done to achieve greater economic parity for residents of Ninth District reservations. cd

Figure 1 **Reservation Population Growth, 1990, 2000, and 2005–2009**



*Only includes those reservations located in the Ninth Federal Reserve District. Sources: 1990 and 2000 Census, 2005–2009 American Community Survey.

Figure 2 **State and Reservation Poverty Rates, 1990, 2000, and 2005–2009**



*Only includes those reservations located in the Ninth Federal Reserve District. Sources: 1990 and 2000 Census, 2005–2009 American Community Survey.

[1] According to the U.S. Department of the Interior's Bureau of Indian Affairs, reservations are areas of land reserved for a tribe or tribes under treaty or other agreement with the U.S. government where the federal government holds title to the land in trust on behalf of the tribe(s).

[2] See "Demographic trends reveal mixed portrait of Ninth District Reservations," *Community Dividend*, Federal Reserve Bank of Minneapolis, November 2003. Available at www.minneapolisfed.org.

[3] ACS estimates are based on data collected over a five-year time period for geographic areas with smaller populations. For more information about the ACS, see www.census.gov.

[4] For more on casino revenue and its effects on the household incomes of reservation residents, see "Milking the new buffalo" by Doug Clement, *fedgazette*, Federal Reserve Bank of Minneapolis, March 2003, available at www.minneapolisfed.org.

PHOTOS BY STAN WALDHAUSER

Measuring the impact of community development:

A conversation with Paul Mattessich of Wilder Research

Continued from page 1

ness and impact. What does it mean to measure the impact of community development work, and why is it an important thing to do?

Paul Mattessich: To understand the term "measurement of community development," it's important to understand the difference between measuring the process of development and measuring the outcomes of development. In some cases, measurement involves simply tracking an organization's activities, such as the number of individuals it trained. That is process. Measuring outcomes involves tracking whether a program or initiative actually had the intended effect and whether it improved the community in some way. Did it change residents' behavior? Did it produce any social or economic benefits?

Measuring the impact of community development work is important because the issues that the Federal Reserve and community development organizations are working on are truly significant for enabling communities to succeed. Communities need a strong economic infrastructure, and the only way to know if we've built it is to measure whether it's happened. Also, we want to be able to do our work as effectively and efficiently as possible. The only way to achieve that is to measure—to understand what we're doing and where it works and doesn't work, so that we can strive to improve it.

If organizations don't measure their impact, they risk not being able to demonstrate the effectiveness of their programs. They risk not being able to motivate the community by showing people what a difference their programs really make. They risk losing out on the opportunities to bring in more human and financial capital and to identify their strengths and weaknesses. Organizations risk losing a great deal if they don't have good measurement.

CD: What do you think is the best way to measure the impact of a community development program or initiative?

PM: When it comes to measuring impact, I think it's valuable for practitioners and policymakers to think in terms of a logic model. It's a visual model that uses a sequential point of view to measure the results of an effort. It starts out with the inputs that go into a community development effort, such as resources and materials. Then it moves on to activities: What is it that an organization actually did? Then to outputs: the immediate, countable results from those activities. And then to outcomes: What happened as a result of the effort, both in the short term and the long term? Examples of outputs include the number of small business loans granted, the number of housing units built, and the number of residents who attended training seminars. In terms of outcomes, we can ask questions, such as, Did residents' access to retail and services increase? Did access to affordable housing increase? Did crime rates decrease? If we clearly identify our intended outcomes and measure them, we can demonstrate whether our efforts really did have a positive impact.

CD: Given the complexities of community conditions, how can an organization be sure that its effort was truly responsible for an observed change in a community?

PM: That's an important question. If there is a change, was it because of us or because of the many other things happening in the community at the same time? Going back to the logic model framework that I mentioned, outputs are relatively easy to attribute to a specific program. If an organization provides training to a hundred people, you can obviously attribute that to the program. It becomes more complex when we move to outcomes. In most cases, it's possible to establish whether or not a program actually contributed to a particular outcome or set of outcomes, but it requires having a good comparison. By that, I mean that we need to look at several locations that have a given program in place and compare them to similar locations that don't have that program.

For example, let's say we want to measure the impact of a community development initiative in rural communities that have populations under 20,000. We can find other rural communities of similar size and condition that aren't part of the initiative and use them as a comparison. If, after a few years, the communities with the initiative have stronger, higher-capacity organizations, more commercial activity, populations that are declining less rapidly, or whatever the desired outcomes are, we can be reasonably sure that it's because of our community development initiative. And the reason we can be sure is because we have a good, solid comparison.

CD: What about the cost? Is it possible to measure impact without spending a lot of money?

PM: It's important to understand that it does cost money to evaluate impact. There's no way around it. That being said, there are some low-cost, creative ways to do at least certain parts of your evaluation. One way is to avoid the cost of collecting data by using measures that are already being tracked. For many communities, there are existing data on housing conditions, crime rates, work force participation rates, poverty rates, and other demographic characteristics that are available through the U.S. Census Bureau or local government agencies.

Another approach is to identify data that are easily obtainable at very little cost. For example, if the intended outcome is to increase the number of businesses on blocks that have been largely abandoned, it's very easy to walk down those blocks and count up how many storefronts are vacant and boarded up, and then walk down those same blocks one year later and see if that number has changed. A third way to save money is to team up with similar organizations and use a single evaluation or survey. An evaluation that is cost-prohibitive for a single organization can be affordable if three or four organizations are willing to share the cost of the design. A nonprofit can also establish its own logic model by using free or low-cost guides that are published by institutions that do this type of work. That doesn't mean an evaluation can always be done without professional help. Sometimes it does require hiring a social scientist or an economist, but there are many situations where it does not.

CD: A number of states and cities have established community indicators projects. Can you tell readers more about this method of community measurement?

PM: The purpose of community indicators projects is to identify the critical ingredients of community success, measure them, and promote action in order to push social and economic trends in a positive direction. We

have a lot of experience working with community indicators at Wilder Research. We're currently responsible for the oversight of a web-based indicators project called Minnesota Compass. It's been under way for over five years now and has about ten focal areas in which we do measurement, including housing, health, education, public safety, and the economy. For each area, we identified three or four key measures that together provide a reading on whether communities in Minnesota are getting better or worse and how the state compares to the U.S. overall.

CD: How does the work of community development organizations relate to those sorts of community measures? And how important is that work when it comes to moving trends in a positive direction?

PM: I'll give you some examples of how it relates. One measure of community well-being is housing affordability, which can be quantified by the number of households that face a housing-cost burden. A household is considered "cost-burdened" if its housing costs equal 30 percent or more of its monthly gross income. Community development efforts that increase the supply of affordable housing can decrease the proportion of cost-burdened households. In the area of public safety, crime rates are a widely used measure. Efforts that bring neighbors together and support small business development can have a positive impact on crime rates and residents' perceptions of neighborhood safety. Small business development can also lead to increased work force participation, which is a key measure of economic health. For example, Wilder Research's evaluation of the Neighborhood Development Center in St. Paul has shown the impact that neighborhood entrepreneurs can have on job creation and other countable measures of economic success. Community development organizations can have a major impact on trends when they target specific locations, identify the strengths and weaknesses of those locations, and then try to build on those strengths and remedy those weaknesses. I think their work is extremely significant, especially at the micro level.

CD: How can community development organizations build on the momentum of existing community measurement efforts?

PM: They can commit to the use of measures that fit within a logic model and demonstrate how the use of those measures over time can lead to continuous improvement. They can choose established, readily available measures that anyone can understand and accept, and use those measures to celebrate progress and motivate people to do even more. Also, organizations in Minnesota can get involved in Minnesota Compass by visiting the project online at www.mncompass.org. In addition, we plan to expand Compass into North Dakota and South Dakota within the next year, and we're approaching our expansion in a way that isn't strictly proprietary. We plan to provide the infrastructure, but community leaders in the Dakotas will contribute to the development of their respective sites and will be empowered to continue Compass in a way that meets their needs locally.

CD: For other geographic areas in the Ninth District, what advice do you have for starting a community indicators project or simply starting a conversation about community measurement?

PM: States all have slightly different characteristics, but each state can apply the common framework that underlies community indicators projects. This framework can work for smaller geographic areas as well. The only exception would be if there is a lack of population that makes the numbers too small to be reliable.

If I were to start from scratch, I'd identify the key stakeholders who have a reason to want the measurement to occur, and then I'd find someone from a local university, extension service, or research organization—whichever is most accessible—who could bring some technical advice to the table. The next steps would be to define what the community wants to achieve, identify how it might measure its progress toward those goals, and determine what's actually feasible in terms of cost.

CD: What would you say is the biggest challenge community groups face when they get together to have this conversation?

PM: I think sometimes there's a tendency for the conversation to become overly complex. My advice would be to keep things simple, focus on a few key measures, and tie those measures to what you feel are the most important goals you want to achieve. Don't try to measure absolutely everything, because you are likely to get bogged down.

CD: Based on your experience, what types of community measures resonate best with funders and policymakers?

PM: First, measures that funders and policymakers have had a hand in developing. No measure is perfect, but people will buy into measures that they feel they own, so whenever possible, you should include these stakeholders in the selection of your measures before you gather your data. Second, the more a measure relates to a positive cost-benefit, the more appealing it will be to policymakers.

CD: Systems for community measurement are constantly evolving. Where do you see the field headed in the next five years?

PM: Data that can be used to measure community conditions are becoming more accessible—not just for professional statisticians and demographers, but for people who work on the ground—and I think that trend will continue. It used to be that we could only get data at the time of the census. Now, data for small geographic areas with populations of less than 20,000 are available annually. Within the next five years, I think it'll be much easier for people to get data for geographies that they define, not just those that are predetermined. Also, I think we'll continue to see organizations gravitate toward using more standardized measures of community well-being.

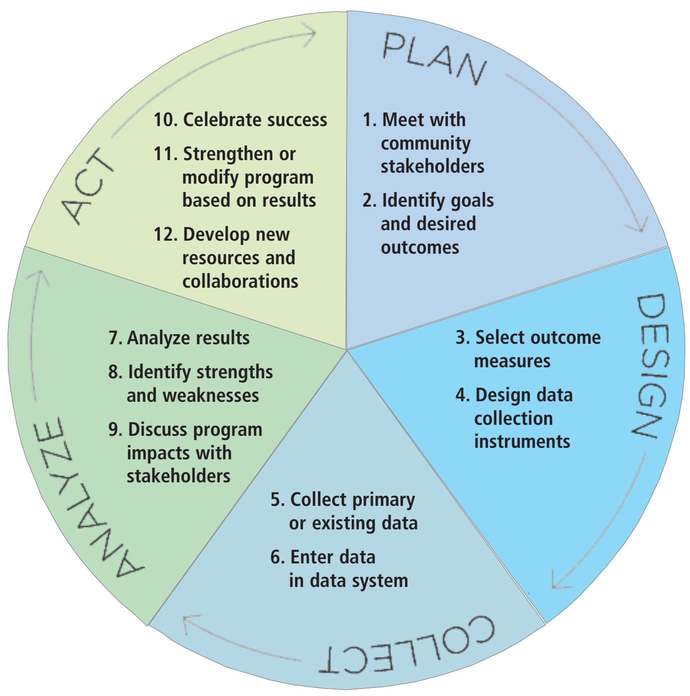
CD: What would you say to readers who are skeptical about the feasibility of measuring impact or are hesitant to commit resources to a measurement effort?

PM: I'd say that programs or interventions may have some unmeasurable impacts, but it is always possible to measure *something*. There isn't any community development effort that doesn't have at least some measurable effects, in terms of desired outcomes and in terms of cost-benefit.

The real value of quantitative measurement is that if you can get people to agree ahead of time on what the goals are and what the best measures are, then after you've tried an intervention, everyone will also agree on whether it worked. It puts everyone on the same page in terms of knowing what to expect, what to hope for, and what to work toward. And measuring our outcomes not only allows us to set goals to improve our impacts over time, it helps ensure that we are having the maximum impact for the dollars we're spending. All in all, it just makes great common sense.

For a visual summary of the impact-measurement process, see the diagram at left.

Measuring Community Impact: A Visual Summary of the Process



The structure of this visual summary is based on the diagram "Success Measures Evaluation Process," as reprinted in the report *Demystifying Outcome Measurement in Community Development*, written by Renu Madan and published by the Joint Center for Housing Studies of Harvard University and NeighborWorks® America, May 2007.

For further reading

Renu Madan, *Demystifying Outcome Measurement in Community Development*, Joint Center for Housing Studies of Harvard University and NeighborWorks® America, May 2007.

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Recent rule changes expand definition of community development under the CRA

areas that Housing and Urban Development (HUD) has designated as "areas of greatest need." The favorable CRA consideration will be available for up to two years after the date by which grantees must spend NSP funds. Examples of eligible loans, investments, and services include donating foreclosed, bank-owned properties to a nonprofit housing organization; providing financing for the purchase and rehabilitation of foreclosed properties; and providing technical assistance to support the redevelopment of demolished properties. In practice, financial institutions categorized as large banks are most likely to take advantage of the rule changes, since large banks have the heaviest community development obligations under the CRA. (For more on this, see the "Nuts and bolts of the CRA" sidebar at right.)

The rule changes have two key provisions that expand the CRA's definition of community development. The provisions are departures from the CRA's longstanding emphasis on encouraging activities that benefit *low-* and *moderate-*income communities (i.e., those with median family income that is less than 80 percent of area median family income) located *within* a financial institution's assessment area. First, the rule changes extend CRA consideration to loans, investments, and services that benefit *middle*-income people and geographies (i.e., those with family or median income between 80 and 120 percent of the area median income) located within HUD-designated areas. Second, the rule changes extend CRA consideration to loans, investments, and services made *outside* of a financial institution's assessment area, so long as the institution has adequately addressed the community development needs inside its assessment area. The two provisions are not without precedent; in 2006, regulators expanded the definition of community development in a similar way, in part to encourage financial institutions to make loans, investments, and services that benefit areas of the Gulf Coast devastated by hurricanes Katrina and Rita.

The federal financial regulatory agencies' recent rule changes mark the start of a comprehensive review of the CRA regulations. *Community Dividend* will provide updates on significant developments in the review process in the months ahead. cd

1 The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

2 *Federal Register*, Vol. 75, No. 243, December 20, 2010, p. 79278.

NSP 101

The federal government initiated the Neighborhood Stabilization Program (NSP) in 2008 in order to channel funding to communities hit hard by the foreclosure crisis. The program is administered by the U.S. Department of Housing and Urban Development (HUD) and consists of three distinct funding allocations, each with its own legislative lineage.

The first round of the program, known as **NSP1**, was established through the Housing and Economic Recovery Act of 2008. It used a needs-based formula to distribute a total of $3.92 billion in emergency funds to state and local governments for "the redevelopment of abandoned and foreclosed homes and residential properties in order that such properties be returned to productive use or made available for redevelopment purposes."* NSP1 funds were distributed in 2009 and must be spent within four years of the date they were awarded.

The second round of the program, **NSP2**, was established through the American Recovery and Reinvestment Act of 2009. It was administered as a component of HUD's Community Development Block Grant program and used a competitive bidding process to award $2 billion in grants to nonprofit organizations and government entities. NSP2 grants were announced on January 14, 2010, and all funds must be spent within three years of the date awarded.

Among its many provisions, the Dodd-Frank Wall Street Reform Act of 2010 established the third round of the NSP, known as **NSP3**. This latest iteration of the program awarded a total of nearly $1 billion to 283 public and nonprofit entities nationwide. Grants were distributed according to a needs-based funding formula established by HUD. NSP3 awards were announced September 8, 2010, and must be spent within three years of the date awarded.

All NSP grantees must submit action plans to HUD that describe how the funds will be used. In addition, according to provisions of the Dodd-Frank Act, all NSP funds must be used with respect to the needs of low- to middle-income people and must be put to one or more of the following five uses:

- **Establishing financing mechanisms for the purchase and redevelopment of foreclosed properties;**
- **Purchasing and rehabilitating foreclosed homes, in order to sell, rent, or redevelop them;**
- **Establishing and operating land banks for foreclosed homes;**
- **Demolishing blighted structures; and**
- **Redeveloping demolished or vacant properties.**

For additional information on the NSP, including maps that indicate NSP-eligible areas, visit www.hud.gov/nsp or http://hudnsphelp.info/index.cfm.

* *American Recovery and Reinvestment Act of 2009: Program-Level Plan*, Neighborhood Stabilization Program (NSP), U.S. Department of Housing and Urban Development.

Nuts and bolts of the CRA

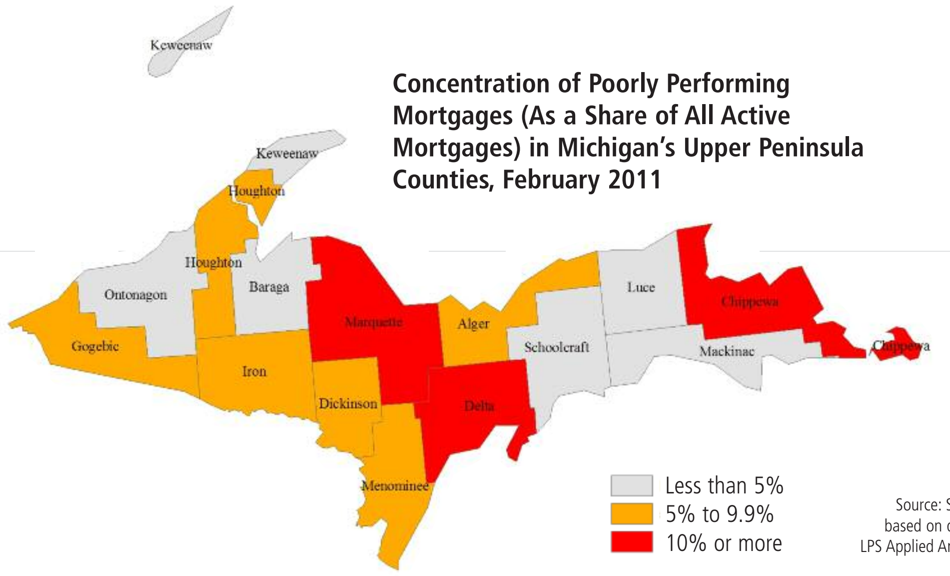
The Community Reinvestment Act (CRA), enacted in 1977, requires depository financial institutions to meet the credit needs of their communities, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound banking practices. To ensure financial institutions are complying with the CRA, examiners from the federal financial regulatory agencies (the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) periodically evaluate each institution's performance in meeting the credit needs in its geographically delineated market area, or *assessment area*. The evaluation criteria the agencies use depend on an institution's asset size.

Large banks, defined as institutions with assets of more than $1.122 billion, are evaluated on their record of meeting three CRA tests: a lending test, an investment test, and a service test. In other words, regulators assess whether large banks have provided loans, investments, and services to LMI individuals and neighborhoods in their assessment areas. Large banks receive favorable CRA consideration if activities in each of those categories constitute *community development*, which the CRA defines as:

- **Affordable housing for LMI individuals;**
- **Community services targeted to LMI individuals;**
- **Activities that promote economic development by financing small businesses or small farms;**
- **Activities that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved middle-income geographies;* or**
- [As of January 19, 2011] **Activities that, pursuant to the requirements of the program, benefit low-, moderate-, and middle-income individuals and geographies in Neighborhood Stabilization Program target areas designated as "areas of greatest need."**

Intermediate small banks, those with assets of $280 million to $1.122 billion, are evaluated on their record of meeting two CRA tests: a lending test and a community development test. The extent of the community development test varies depending on each intermediate small bank's circumstances. **Small banks**, those with assets of less than $280 million, are evaluated on just one CRA test, the lending test, but can try to enhance their CRA rating by asking regulators to evaluate their community development activities as well.

* By definition, distressed or underserved geographies are nonmetropolitan. For more on this, see "2005 revisions define new CRA-eligible geographic areas," *Community Dividend* Issue 1, 2007, available at www.minneapolisfed.org.



Concentration of Poorly Performing Mortgages (As a Share of All Active Mortgages) in Michigan's Upper Peninsula Counties, February 2011

Source: Staff calculations based on data provided by LPS Applied Analysis and ESRI.

Delinquencies and foreclosures in rural areas:
A snapshot of the recent performance of mortgages in Michigan's Upper Peninsula

By Michael Grover

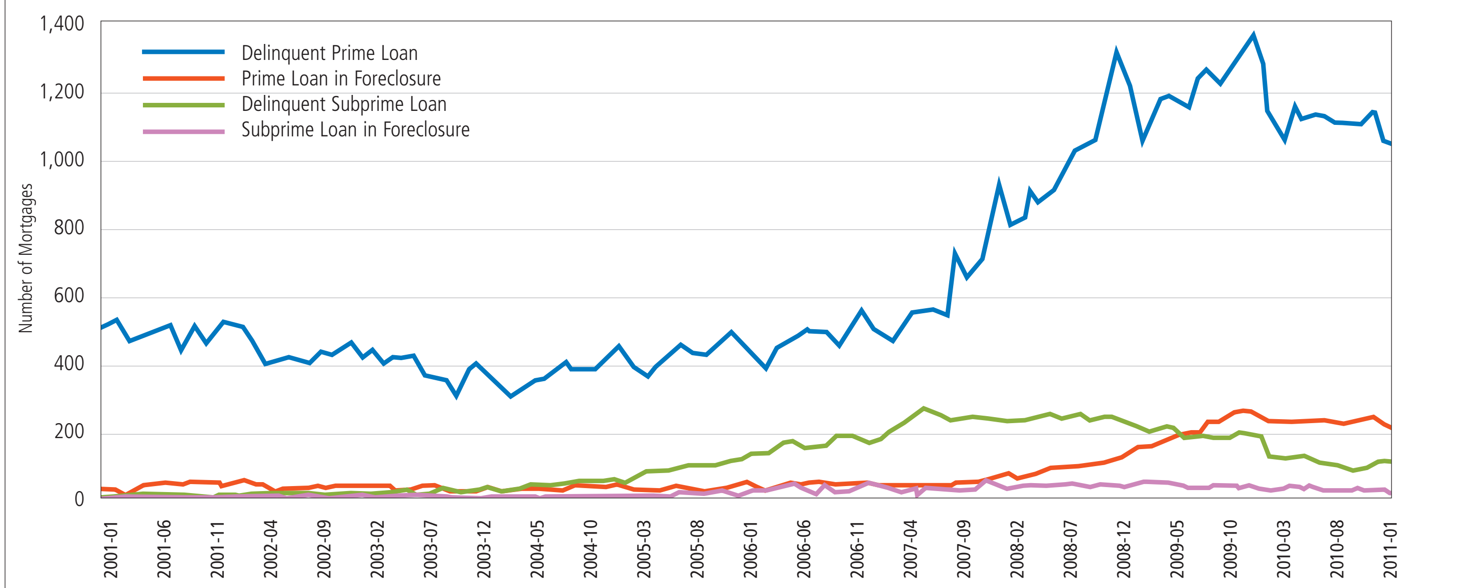
Many urban regions and neighborhoods have been hit hard by the recent poor performance of a large number of residential mortgages. In the Ninth Federal Reserve District, poorly performing mortgages have mostly been concentrated in the Twin Cities region. In particular, the central cities and suburban neighborhoods of the seven-county Twin Cities metropolitan area have experienced elevated levels of foreclosures over several years. Since 2004, the Minneapolis Fed has been involved in a number of research efforts to identify these foreclosure "hot spots" and the characteristics of the loans originated in them.*

Thanks to the recent acquisition of an innovative data source, the Minneapolis Fed has expanded its ability to provide baseline information on mortgage performance trends in nonmetropolitan and rural areas in the Ninth District that may also be adversely affected by poorly performing mortgages. State and regional profiles that use this information can be found on the Minneapolis Fed's Foreclosure Resource Center web page at www.minneapolisfed.org.

The data source, called the LPS [Loan Processing Services] Applied Analytics Residential Mortgage Servicing Database (or LPS, for short) is made up mainly of the servicing portfolios of the largest residential mortgage servicers in the United States. All told, it covers about two-thirds of installment-type loans in the residential mortgage servicing market. By year-end 2010, the database contained some 37 million active loans. The LPS contains loans purchased by government-sponsored enterprises, such as Fannie Mae, along with private securitized and portfolio loans. LPS data include a wide variety of loan types, including subprime, near prime (alt-A), and prime loans.

The LPS is a useful tool for tracking the aggregate performance of residential mortgages. Specifically, the database tracks whether a loan is current, delinquent, or in foreclosure. In the past, this sort of baseline information has proven helpful to community leaders and policymakers as they seek to understand foreclosure trends, develop intervention programs, and target their foreclosure mitigation strategies.

Mortgage Performance in the Upper Peninsula, 2001–2011



Source: Staff calculations based on data provided by LPS Applied Analysis and ESRI.

A snapshot of mortgage performance in the U.P.

Using LPS data to examine one rural part of the District, namely the Upper Peninsula of Michigan (the U.P.), reveals that the aggregate performance of loans there generally followed trends found in other parts of the country. However, riskier or "subprime" mortgages were less prevalent in the U.P. as compared to other parts of the country. This was especially true when comparing the U.P. to regions of the U.S. that experienced dramatic housing price appreciation in the run-up to the recent recession.

The number of delinquent or foreclosed mortgages in the U.P. started increasing significantly in 2006, jumped dramatically in late 2007 and early 2008, peaked in late 2009, and has held steady since early 2010. See the figure above. This finding suggests that the recent performance of U.P. mortgages followed a trajectory similar to that of mortgages in the state of Michigan and the nation, albeit at a much lower volume.

The LPS data show that while subprime mortgages generally had higher rates of delinquency or foreclosure in the U.P. than prime loans, it was prime loans that constituted the majority of poorly performing mortgages. Subprime loans only accounted for 6 percent of all loans in 2006 and currently account for less than 2 percent. The state of Michigan as a whole had a slightly higher proportion of subprime loans, and the proportion was even higher in urban areas of the state, including Detroit and Wayne County, where 12 percent of loans during the same period were subprime.

Where in the U.P. are poorly performing mortgages concentrated? In February 2011, LPS tracked 20,000 active mortgages in the U.P. Of these, 5.7 percent of mortgages were delinquent and 1.1 percent were classified as being in foreclosure. A geographic analysis reveals that more than half of these poorly performing mortgages were located in some of the area's most populous counties, specifically Chippewa, Delta, Marquette, and Menominee counties. See the map above.

Targeting mitigation

An LPS-based data snapshot of poorly performing mortgages suggests that the economic downturn and subsequent elevated levels of unemployment likely had a greater effect on the U.P.'s residential housing market than did the housing boom and bust seen in other parts of the country. Overall, the U.P. region generally fared better than other parts of Michigan, especially large urban areas in the state's Lower Peninsula. In tracking these trends from now on using our LPS-based state and regional profiles, the Minneapolis Fed hopes to assist the Ninth District's public, private, and nonprofit housing stakeholders in better targeting foreclosure mitigation strategies, including outreach to at-risk borrowers and redevelopment of vacant properties. cd

* See *Targeting Foreclosure Interventions: An Analysis of Neighborhood Characteristics Associated with High Foreclosure Rates in Two Minnesota Counties*, Federal Reserve Bank of Minneapolis Community Affairs Report, 2007; and "New data analysis helps identify future foreclosure trouble spots," *Community Dividend* Issue 2, 2008, Federal Reserve Bank of Minneapolis. Both references are available at www.minneapolisfed.org.

News and Notes

Minneapolis Fed launches Indian Country Currents site

The Minneapolis Fed has launched Indian Country Currents, a web site designed to serve as an information gateway for individuals and organizations engaged in building thriving economies in Native communities. The site's features include an extensive list of Indian Country related articles and reports; directories of the American Indian tribes, tribal colleges, and state-tribal entities located in the Ninth Federal Reserve District, plus listings of federal agencies and national nonprofits that work on Native economic development; a calendar featuring Indian Country related workshops, conferences, and other events; and information on the Ninth District's Indian Business Alliances. Slide shows on the home page trace the Minneapolis Fed's history of helping tribes build governance, infrastructure, financial access, and resources to support sustainable private business development on reservations. To explore the site, visit www.minneapolisfed.org/indiancountry.

homeWORD receives 2011 Innovation Award

The Federal Reserve Banks of St. Louis, Atlanta, Dallas, and Minneapolis, in partnership with NeighborWorks® America, recently presented homeWORD, Inc., with the 2011 Innovation Award for exemplary practices in the community development field. HomeWORD, an affordable housing developer based in Missoula, Mont., was honored for its commitment to promoting green housing. The award specifically recognizes homeWORD's Solstice-Confluence project, a mixed-use development in Missoula that is slated for completion in October 2011. Solstice-Confluence is the first-ever project in Montana to combine Low Income Housing Tax Credits and New Markets Tax Credits. It will include 34 units of affordable housing and 16,000 square feet of commercial space that homeWORD will lease at below-market rates to other nonprofit organizations. The development's design was influenced by a neighborhood *charrette* (an intensive brainstorming discussion among architects, designers, and community members) and includes an array of environmentally friendly features, such as a water-conservation system that uses filtered waste water to irrigate the site's landscaping.

The Innovation Award was funded by NeighborWorks and formally presented at the May 2011 convening of the biennial Exploring Innovation conference, which was sponsored by the four Federal Reserve Banks listed above. The award consisted of two scholarships: one to the conference and one to the August 2011 NeighborWorks Training Institute in Atlanta. Initiated specifically for the 2011 Exploring Innovation conference, the award was open to all community development corporations located in the districts of the four partner Reserve Banks. Award applications were submitted via a web site dedicated to the 10,000 Hour Challenge, a St. Louis Fed project designed to encourage community development professionals across the country to collectively dedicate themselves to 10,000 hours of innovation. Staff from NeighborWorks and the partner Reserve Banks selected the recipient of the award.

Standing receives Minority Small Business Champion Award

Pamela Standing, a partner in the Minneapolis Fed's efforts to facilitate the development of private sector economies in Indian Country, has received the U.S. Small Business Administration's 2011 Minority Small Business Champion Award for Minnesota. The Minority Small Business Champion Award is presented annually in each state to an individual who is an outstanding advocate for minority-owned small businesses. Standing, an enrolled member of the Cherokee Nation, has worked in American Indian education, grassroots organizing, and tribal economic development since 1991. She is cofounder and cochair of the Minnesota Indian Business Alliance (MNIBA), a statewide collaborative that works to promote American Indian business development. Prior to the 2008 launch of MNIBA, Standing served as executive director of the Minnesota American Indian Chamber of Commerce.

Commerce, USDA release online mapping tools

Two federal agencies have unveiled interactive, web-based mapping tools that may be useful to community development researchers, policymakers, and practitioners.

The U.S. Department of Commerce's National Telecommunications and Information Administration has launched the **National Broadband Map**, the first-ever public, searchable, nationwide map of broadband access. *Broadband*, which refers to a high-speed, always-on connection to the Internet, has become a crucial component of the nation's economic and communication infrastructure. The new map, available at www.broadbandmap.gov, was created at the direction of Congress and developed in cooperation with the Federal Communications Commission, all U.S. states and territories, and the District of Columbia. It is built on a data set of more than 25 million records that list the location, format, speed, and provider of all broadband service in the U.S. To ensure its relevance, the data set will be updated every six months. In the intervals between updates, users are welcome to submit feedback to help improve and refine the data.

The recently launched **Atlas of Rural and Small-Town America**, a project of the Economic and Research Service (ERS) of the U.S. Department of Agriculture (USDA), is designed to help people understand the diverse opportunities and challenges facing rural regions and communities. The atlas is a mapped data set of more than 60 socioeconomic indicators that are grouped under four broad categories: people, jobs, agriculture, and county classifications. The last category contains ERS-assigned codes that rate counties on indicators such as economic dependence, persistent poverty, and population loss. Sources for the data set include the U.S. Census Bureau, the Bureau of Labor Statistics, and the USDA's Census of Agriculture. Atlas users can download spreadsheets of the data and save customized maps in a graphic format that can be inserted into documents and presentations. To explore the atlas site, visit www.ers.usda.gov/data/ruralatlas.

Calendar

Montana Financial Education Coalition 2011 Statewide Conference:

Building a Money-$avvy Montana

September 21, 2011, Billings, Mont.

Featuring Pam Krueger and Jack Gallagher of the PBS series *Money Track*, this event will offer practical information on financial education resources and an opportunity to apply for grants to fund financial education programs in Montana communities. Additional information: contact Thomas Schumann at tschumann@cccsmt.org or 406-532-1579.

Save the Date!

EconFest:

Celebrating 50 Years of the Minnesota Council on Economic Education

Minnesota Council on ECONOMIC EDUCATION — Bringing Economics to Life — Celebrating 50 Years

October 20, 2011
Hosted by the Federal Reserve Bank of Minneapolis

Join us on October 20 to celebrate the 50th anniversary of the Minnesota Council on Economic Education. EconFest 2011 will feature a reception marking the council's 50-year milestone, an awards program recognizing outstanding economic and personal finance educators, and mini seminars highlighting innovative economic and personal finance learning activities. Members of the education, business, and philanthropic communities are encouraged to attend. Visit www.mcee.umn.edu for more information.