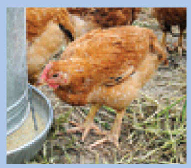
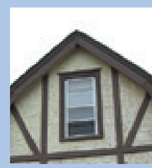
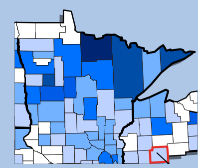


More on Main Street Project's **"agripreneur" program** Page 2

More on how the **North Dakota oil boom** is affecting seniors Page 4



Mapping **underwater mortgages** in the Twin Cities Page 6



Free tax preparers reach out to EITC claimants Page 7

October 2012

Community Dividend

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North Dakota oil boom squeezes seniors who rent

By Jacob Wascalus

Ask Deeann Long to describe the recent changes that her area of North Dakota has undergone and she'll sum up the situation this way: "If you want an economics lesson in supply and demand, come to Williston."

PHOTO BY KEVIN CEDERSTROM

A steady stream of trucks hauls materials to and from oil fields in McKenzie County, N.D. Heavy traffic and other side effects of the Bakken oil boom have altered daily life for many area residents, including the elderly.

As the client services director for the Williston/Dickinson, N.D., branch of the national anti-poverty organization Community Action, Long is a daily witness to the effect that the frenzied energy industry has had on the residents of her North Dakota region. Much of it is positive and comes in the form of employment. But for some residents, the negative repercussions, such as skyrocketing housing costs, deteriorating quality of life, and increasing food prices, are dulling the sheen of this economic surge. For segments of the population that are not fully engaged in the workforce, such as the elderly, the boom's effects may be making life harder.

Long knows these people well, as her organization serves them every day. "For seniors on fixed incomes," she says, "particularly those who rent, times are definitely more challenging."

Boom leads to booming population

Over the past three years, the once-calm economy of western North Dakota and eastern Montana has exploded due to the emergence of energy-extraction activity in the Bakken oil field.[1] Scores of oil derricks and pumpjacks now dot this patch of northern plain, and thousands of people from across the country continue to stream into the area seeking—and readily finding—employment. The oil boom, with its offer of financial well-being in exchange for long hours of hard toil, dangles a promise of economic opportunity not available in most parts of the country.

The majority of the Ninth Federal Reserve District's Bakken extraction area sits in five North Dakota counties: Dunn, McKenzie, Mountrail, Stark, and Williams. The number

Continued on page 4

Data analysis shows extent of underwater mortgage problem in the Twin Cities

By Michael Williams

Despite promising signs that home prices have stabilized or even inched upward, many homeowners remain mired in negative equity. Having negative equity, or being "underwater," occurs when a borrower owes more on a mortgage than the current value of the property securing the loan.

Being underwater reduces a homeowner's net worth and has additional, often ongoing, consequences for both the homeowner and his or her neighborhood. Despite historically low interest rates, underwater homeowners who opt to remain in their homes are typically unable to refinance into lower monthly mortgage payments. Furthermore, they may have to delay home repairs and improvements due to a lack of home equity. Those looking to move also face real barriers as additional out-of-pocket funds are required to pay off the loan at the time of sale. Ultimately, a borrower who is severely underwater may choose to strategically default on the mortgage, adding the property to the pool of homes in fore-

Continued on page 6

"Agripreneur" program helps rural Latinos become small-scale farmers

By Jacob Wascalus

For Ivan Flores, owning and operating his own business is an alluring prospect. A resident of Northfield, Minn., he was born and raised in Mexico and currently works on a hog farm for $9 an hour. The work is hard and the hours are long, but raising animals and growing food are vocations he's comfortable with.

"Once I start a business, I would like to reach the point where it would be sustainable—and would sustain me and my family," says the 30-year-old husband and father of three.

For Flores and scores of other Latino residents of this southern Minnesota town, the path to owning their own businesses—specifically, small chicken farms—is being cleared through the efforts of Main Street Project. This Minneapolis-based organization is ramping up its Sustainable Food and Agriculture Program, in which budding farmers—or "agripreneurs"—will learn to raise and sell poultry and other agricultural products as part of an emerging local food network. When he graduates from the program and starts operating his own farm at full capacity, Flores expects to earn about $32,000 a year, considerably more than what he takes home now.

Says Niel Ritchie, executive director of Main Street Project: "We're working with a Latino population that is a fundamental component of the current food system. They're the workers, the laborers. Most of them live below the poverty

Continued on page 2

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"Agripreneur" program helps rural Latinos become small-scale farmers

Continued from page 1

line, and we're working to change that—providing business and farm training and support that will make it possible to succeed at small-scale sustainable farming, and begin to move from poverty to prosperity."

A growing and low-income population

"The face of rural Minnesota is changing rapidly," says Ritchie, "and it's becoming more and more diverse."

Indeed, between 2000 and 2010, the number of people of Latino or Hispanic origin in Minnesota increased by 75 percent, from 143,382 to 250,258. By 2010, Latinos made up nearly 5 percent of the state's population.[1] While the highest concentration of Latinos is found in the Twin Cities, roughly one-third of the population, or 82,700 people, lives outside of the seven-county Twin Cities metropolitan area. In Rice County, which encompasses most of Northfield, the number of Latino residents increased by 64 percent over the past decade, from 3,117 to 5,112.

Income—or rather the lack thereof—is a problem for many of these new Minnesotans. For example, in 2010, Latinos in Rice County earned a per capita income of $11,257. Adjusting for inflation, that's down 35 percent from the $17,276 they earned in 1999. By contrast, for white residents of Rice County, who make up approximately 90 percent of the population, per capita income fell by less than 4 percent during the same period, from $26,570 in 1999 to $25,562 in 2010.[2]

"Overwhelmingly, Latinos and Hispanics work low-wage jobs," says Regi Haslett-Marroquin, director of the Sustainable Food and Agriculture Program at Main Street Project. "They're stuck at a level of poverty that is very difficult to escape, and owning and running their own small farming enterprises will help them break this cycle."

Young free-range chickens at an incubator site in Northfield, Minn., built for Main Street Project's agripreneur program.

PHOTOS BY PAULA WOESSNER

A local food network supplied by agripreneurs

At the core of Main Street Project's initiative, planning for which started in 2007, is a vision of a local food system supplied by a cluster of small-scale farms owned and operated by agripreneurs. The farms would produce a variety of agricultural and animal products—poultry, vegetables, grain, compost, fertilizer, etc.—and operate within a processing, distribution, and consumer milieu that is based in the Northfield area. Because poultry production is relatively quick—it takes an average of just eight weeks for a Cornish Cross chick, the predominant "broiler," or meat chicken, to mature—and requires low initial investment, the agripreneur model starts all interested farmers with free-range chicken farming.

The agripreneur training program is a cycle divided into three phases: a discovery phase, a development phase, and a launch phase. Interested residents, who are identified through Main Street Project's outreach efforts, can start the training program at no cost.

- ***Discovery phase:*** Participants gauge their interest in different types of farming by participating in community and market gardening, in which they help to grow produce for sale and personal consumption. During this phase, they also assist

This Northfield incubator site includes a large paddock (foreground) and an all-weather coop (background), or "production unit," in which an agripreneur can raise 4,500 chickens a year, at a profit of $4,000.

with the full life cycle of poultry operations, helping raise and process chickens.

- ***Development phase:*** Those who have an interest in continuing the training then begin more intensive education that is a mixture of classroom sessions about the business side of owning and operating a farm—creating a business plan, budgeting, marketing, scheduling—and hands-on field training. Participants also familiarize themselves with the area's agricultural market.

  Central to this phase of training are "incubator sites"—20,000-square-foot paddocks that will each contain one 40' x 44' coop, or "production unit," that is weatherized for year-round use. At incubator sites, the participants learn, hands-on, the daily details of operating a small poultry farm. These sites will also feature food-bearing plants—fruit trees and hazel shrubs, for example—around which chickens can forage and from which farmer trainees can learn sustainable farming and harvesting practices. Main Street Project buys or rents the land that the incubator sites sit on and also provides the chicken coops. So far, the organization has built a total of four coops, two each at two separate locations.

- ***Launch phase:*** Finally, those who wish to advance will be matched up with farmer mentors to support the agripreneurs in their new entrepreneurial pursuits. During this phase, the new farmers also gain access to business planning support and financing options, which are critical for buying the equipment and supplies needed to function profitably.

"We have no desire to operate a program that trains people how to be farmers and then just abandons them after the training is complete," says Ritchie. "We want the new farmers to be successful, and we make sure of this by providing them with the level of technical and networking support needed to operate and sustain their farms indefinitely."

Although poultry production is the initial targeted farming type, agripreneurs can expand their operations by returning to the discovery phase and learning about other income-earning aspects of farming that interest them, such as egg production, manure management, vegetable growing, or hazelnut production. Because none of the phases have time limits, participants who have jobs and other time commitments can advance through the system at rates appropriate for their schedules.

While Main Street Project owns the chicken coops, all of the remaining start-up costs—chicks, feed, seed mixes for the paddocks, etc.—are incurred by the farmers themselves. Financing for the operations is available to agripreneurs through the Grow a Farmer Fund, a $40,000 microloan program set up by Main Street Project. Currently, with chicks costing approximately $1.20 each and feed running roughly $3.00 per bird, the average loan amount is $7,000. The farmers then pay back the loans after selling their chickens.

So far, 28 people, including Ivan Flores, have participated in or are currently enrolled in the development phase of the agripreneur training process, which was initiated in September 2011.

According to Haslett-Marroquin, the annual household income of people targeted for this program ranges from $10,000 to $22,000. As participants start to raise chickens at incubator sites they can supplement their wage income and eventually replace it outright. For instance, if an agripreneur operates one production unit, which takes one to two hours a day and can produce 4,500 chickens a year, he or she can earn an additional $4,000 annually. At full capacity, which equates to working full-time and operating eight production units (36,000 birds), an agripreneur can earn up to $32,000 a year. The idea, says Haslett-Marroquin, is to gradually replace wages with self-employment income and thus gain a greater degree of economic autonomy. That, in turn, will position the agripreneurs to graduate from the program and launch their own small-scale farms that are modeled after Main Street Project's production-unit standards but rely on conventional financing.

"We ask that the agripreneurs commit to managing their finances in accordance with their business plans to ensure access to conventional credit over time," Haslett-Marroquin says.

Pecking out a portion of the poultry market

Haslett-Marroquin developed the specifications of the agripreneur program—the number of chickens needed to make a profit, the size of the coops and paddocks needed to raise the chickens, etc.—by examining statewide and local poultry markets and determining what it would take to capture 5 percent of the market in Northfield, an initial goal of the program. In 2007, the year of the most recent agricultural census, poultry sales topped $1 billion statewide.[3] According to Haslett-Marroquin, Northfield's share of the market is approximately $5 million. To tap 5 percent of it, or $250,000, the agripreneur network will need to produce roughly 280,000 birds a year.

"When all of the pieces of this system are up and running, we'll be able to meet that number," he says.

Budding relationships with local grocery retailer Just Food Co-op and Bon Appétit, the food service provider for Northfield's Carleton College and St. Olaf College, signal a ready market for the agripreneur system's free-range chickens.

"There is high demand for food raised locally and sustainably," Haslett-Marroquin says. "Food purchased from these farms will meet the quality demands of these customers while supporting small farms and the people who operate them."

Creating a pathway to success

Full implementation of the agripreneur program has its challenges. One challenge is the need to align all of the components necessary to create a viable local food system: land for the farms needs to be rented or purchased, coops need to be constructed, facilities for processing poultry need to be acquired or accessed, and markets need to be established, among other things. But all of these components, according to Ritchie, are starting to fall into place. Multiple land owners have agreed to rent land to the program, four coops have been built, a system for USDA-inspected poultry processing has been established, and supplier relationships with retailers and local institutions are developing.

Covering the upfront costs of the program is another challenge. Each incubator site costs approximately $50,000 to construct, and Haslett-Marroquin has determined that eight incubator sites are an optimal amount for the program, at a total cost of $400,000. And beyond the costs associated with production infrastructure, staff time and overhead are another $300,000 per year.

Financial support for the program is emerging, however. The Southern Minnesota Initiative Foundation recently made a $90,000 grant to help fund the agripreneur initiative, and it made another $10,000 grant to seed the microloan program that agripreneurs can access to finance their farms.

"Our foundation is investing in entrepreneurs as the engine for future economic growth in our southern Minnesota region," says Tim Penny, president of the Southern Minnesota Initiative Foundation. "We see a strong entrepreneurial spirit among new Minnesotans—including our region's Latino population—and we are excited about the potential of the agripreneur project to create a pathway toward economic security and success." cd

[1] U.S. Census Bureau, 2000 and 2010. Nationally, the number of people of Latino or Hispanic origin increased by 43 percent between 2000 and 2010, to 16.3 percent of the U.S. population.

[2] These figures are drawn from the 2000 U.S. Census as well as 2010 American Community Survey Three-Year Estimates. The 2010 estimates provide a range of error of +/-$3,064 for Latinos and +/-$821 for whites. All 1999 figures have been converted to 2010 dollars using the Consumer Price Index calculator at www.minneapolisfed.org.

[3] 2007 U.S. Agriculture Census, Minnesota, Table 2, USDA.

North Dakota oil boom squeezes seniors who rent

Continued from page 1

of people employed in these counties jumped by 60 percent between 2007—just before the boom began—and 2011, from 33,632 to 53,954.[2] With increasing numbers of workers needed to fill not just the new oil field positions but also the service-level jobs that have sprung up to support the oil workers and their families, it's no surprise that the population of these counties increased by 10 percent between 2000 and 2010, from 58,365 to 64,166.[3] And based on estimates of billions of barrels of recoverable oil left in the formation, the oil patch's energy-related activity—and the attendant changes to the economic and physical environment—will likely continue for decades.[4]

PHOTO BY KEVIN CEDERSTROM

PHOTO COURTESY OF ELDER CARE

Left: Drilling rigs like this one in Dunn County, N.D., have become a common sight in the Bakken oil patch. Above: Seniors enjoy a meal at an Elder Care serving site in Dickinson, N.D. Due to price inflation in the area, Elder Care now pays $1.75 more to provide each meal than it did two years ago.

Ballooning rental costs

For thousands of longtime residents and out-of-state transplants, the energy-extraction activity offers an enormous opportunity for economic advancement. Yet the influx of people appears to have precipitated a housing shortage and other problems that are inflating costs and diminishing the quality of life for some residents, especially seniors who are on fixed, low to moderate incomes and rent their homes. Hard data on these trends are difficult to come by, since the affected population is relatively small and economic conditions in the area are still evolving. But government leaders and social service providers attest to the changes.

"Elderly residents generally fall in one of two categories," says Shawn Kessel, city administrator for Dickinson, the county seat of Stark County, N.D. "Either they own their home and have benefited from the economic activity, or they rent and have had to deal with rapidly increasing rents."

In Stark County, which has nearly 3,900 residents aged 65 or older, approximately 21 percent of the county's 3,225 rental units are leased to seniors, or 685 units. With similar proportions in the other four core oil patch counties in North Dakota, a significant chunk of the population aged 65 or older is likely feeling squeezed by increasing rents.

"Rent costs have more than doubled over a very short period of time," Kessel explains. "Landlords have generally shortened their lease periods to as little as three months for the purpose of resetting rent rates. It's very rare to see a one-year lease now."

In Williston, which is the unofficial hub of the regional energy industry, many seniors face the increasingly daunting task of writing larger and larger checks to keep up with swelling rental rates. "If a senior is in a market-rate apartment, they should be very nervous," warns Long. "The $400 monthly rent they paid a few years ago is now $2,000 a month."

For a retiree living on Social Security retirement benefits alone, which pay an average of $1,229 a month,[5] spending anything more than 30 percent of that income, or $368, on rent is difficult. But paying market rates is practically impossible. Long suggests that some fixed-income seniors living in market-rate apartments may receive help from family. For those who don't receive help, "that situation just isn't sustainable."

The area has some income-restricted and senior housing, but much, if not most, of it is occupied. Recognizing the need for additional affordable housing, developers in Dickinson added 36 units of low-income rental housing in 2010, with plans to add more, according to Kessel. Similar efforts to increase the inventory of affordable apartments are in the works in other oil patch counties. (See the North Dakota Housing Incentive Fund sidebar on the facing page.) And although some seniors, based on their annual incomes, would qualify for federally

SENIOR POPULATION AND RENTAL HOUSING PROFILES OF THE FIVE CORE OIL PATCH COUNTIES IN NORTH DAKOTA, 2010

	Dunn	McKenzie	Mountrail	Stark	Williams
Total Population	3,536	6,360	7,673	24,199	22,398
Number of residents aged 65 or older	616	902	1,050	3,875	3,328
Percentage of residents aged 65 or older whose incomes are below the poverty level*	12%	10%	14%	13%	10%
Number of rental housing units occupied by renters aged 65 or older	64	112	151	685	564

Source: 2010 U.S. Census, 2010 Five-Year American Community Survey Estimates.

* For a person aged 65 or older who lives alone, the federal poverty threshold in 2010 was $10,458. For a two-person household whose residents are aged 65 or older, the 2010 threshold was $13,180. For more information, visit www.census.gov/hhes/www/poverty/about/overview/measure.html.

subsidized housing through the Department of Housing and Urban Development (HUD) Section 8 voucher program, rents for many of the available market-rate apartments far exceed the maximum allowable payment standards established by HUD and various public housing authorities.

Colleen Rodakowski, executive director of Elder Care in Dickinson, an organization that provides meals to people aged 60 or older and transportation services to the general public, describes the housing situation succinctly: “When you have people with good-paying jobs living in pickup trucks, you know that you have a housing shortage.”

Increased traffic, crime, and prices stress residents

While seniors contend with scarcer and more expensive housing, they must also cope with quality-of-life detriments, such as increased traffic and crime, and further financial stresses in the form of higher food costs.

“Our traffic is unbelievable,” Rodakowski says. “Semis are driving through our towns and breaking up the streets. It's been difficult for a lot of people, particularly elderly people who may not be comfortable with driving in so much congestion.”

As a case in point of the surge in traffic, some stretches of State Highway 22, which runs north-south through Dickinson, experienced a near doubling of average daily traffic volume between 2007 and 2011, from 4,000 to 7,155. Moreover, the average daily number of heavy commercial trucks during the same time frame quadrupled, from 405 to 1,620. Increases are similar, if not worse, in Williston.[6]

“The heavy traffic and congestion in town are really discouraging some people from driving,” says Long in Williston. “You're endangering yourself if you make a left turn across the constant stream of oncoming traffic.”

While the increase in traffic has instilled some residents with a sense of hesitancy about leaving home and driving, Rodakowski says that many people, including the elderly, have expressed a fear for their safety at home, going so far as to install alarm systems. The fear reflects the fact that the number of felony cases in the Southwest Judicial District, which includes Dickinson, increased 85 percent between 2006 and 2011.[7]

Increasing food costs are another cause for concern.

“Everything has gone up in price, and everyone is seeing it,” explains Rodakowski. “We're not used to this, but sometimes you go to the store to buy food and the item you want is already sold out, even at places like Wal-Mart.”

Although the number of meals her organization provides to people aged 60 or older is slightly declining, a fact she attributes to fewer younger elderly replacing the older recipients who move out of the area or pass away, the cost to provide each meal is steadily growing, from \$9.08 in 2010 to \$9.45 in 2011, and then to \$10.83 as of June 2012.[8] Elder Care provides meals for a small recommended donation, which is unenforced, as the primary funding comes from government assistance through the Older Americans Act.

Congestion is now the norm at Main Street in downtown Sidney, Mont., just west of the North Dakota state line.

PHOTO BY KEVIN CEDERSTROM

Kessel, Dickinson's city administrator, explains that the cost of living in Dickinson has increased largely as a function of wage inflation. “You can't hire a bag boy at the grocery store for \$8 an hour anymore,” he says. “You're going to have to pay \$12. At a fast food restaurant, you're going to pay \$12 to \$15 an hour. This is going to drive up prices. In my observation, all sundries cost more here than in other cities in North Dakota that are not experiencing the oil boom.”

A win-win … or not

Anecdotal evidence suggests that some seniors, given the economic circumstances of their area, are taking advantage of the employment opportunities the oil boom provides. For a variety of reasons—extra time on their hands, the need for additional income, the desire to be in social environments—some seniors are trading full-time retirement for full- or part-time work. Rodakowski, in fact, knows one man who decided to come out of retirement to work as a construction site supervisor and has heard of others taking clerical jobs.

“Finding good, qualified people to work for you can be challenging,” Rodakowski says. “Some business owners are asking retirees they may know to come out of retirement and work for them. The businesses get good workers, and the retirees earn some money. It's a beneficial arrangement for both parties.”

At this point, it's not clear exactly how many seniors are benefiting from win-win arrangements with area employers and how many are struggling with increasingly dire financial circumstances as rents and other costs rise. What is clear is that the economy and quality of life in the heart of North Dakota's oil patch have been profoundly altered. As the supply-and-demand cycle continues to play out in the Bakken region, the long-term effects on the senior population remain to be seen. cd

[1] The Bakken is a 200,000-square-mile, oil-rich, shale rock formation located a mile beneath portions of North Dakota, Montana, and the Canadian provinces of Saskatchewan and Manitoba. “Bakken” refers to Henry Bakken, who owned property atop the formation at the time of the discovery.

[2] Figures drawn from the Bureau of Labor Statistics, Local Area Unemployment Statistics, labor force data for 2007 and 2011. See www.bls.gov/lau/#tables.

[3] Data drawn from the 2000 and 2010 U.S. Census. Because of the continued demand for workers since the 2010 Census figures were recorded, the population increase is likely higher.

[4] For more on trends in the Bakken region, visit the Minneapolis Fed's *Bakken Oil Boom* web page located at www.minneapolisfed.org/publications_papers/fedgazette/oil. The page tracks data from eastern Montana as well as western North Dakota and thus may feature different figures from those listed here.

[5] Figure taken from the Social Security Administration, www.ssa.gov/policy/docs/statcomps/supplement/2012/5a.html#table5.a1.

[6] In Williston, along Route 85, average daily traffic volume in the southwestern part of town increased from 8,455 to 21,355 between 2007 and 2011. Daily commercial vehicle traffic volume, meanwhile, quintupled from 1,265 to 6,620. These figures are drawn from Historical State Traffic Count maps available from the North Dakota Department of Transportation, 2007 and 2011, at www.dot.nd.gov/road-map/traffic.

[7] *The Dickinson Press*, June 20, 2012. The Southwest Judicial District includes Adams, Billings, Bowman, Dunn, Golden Valley, Hettinger, Slope, and Stark counties.

[8] Elder Care provides both home-delivered meals and congregate meals. The dollar figures listed here reflect averages of both services.

North Dakota establishes Housing Incentive Fund

Recognizing that the oil patch area has a severe shortage of housing options for people of modest means, the North Dakota legislature recently authorized establishing a \$15 million fund that is dedicated to the creation of affordable housing. The Housing Incentive Fund (HIF) is available to builders who construct or rehabilitate multifamily developments containing units designated for low- to moderate-income households. The projects must contain a minimum of four units, and 30 percent or more of the units must be rented to qualifying households at affordable rates over a 15-year period.

The fund is being financed through voluntary contributions made by taxpayers, who can specify where their dollars should be spent. For every dollar that an individual or corporation contributes, a dollar tax credit will be issued to the contributor. As of August 2012, nearly \$7.1 million had been raised and \$11 million had already been committed.

One project drawing funding from the HIF is the conversion to rental housing of a historic junior high school in Williston. The project, which will use \$200,000 from the HIF, will ultimately provide 28 one-bedroom and 16 two-bedroom affordable apartments for people aged 62 years or older. The refurbishing started in September 2012 and is expected to be completed by October 2013.

According to Lutheran Social Services Housing, a nonprofit provider of affordable housing and one of the project's sponsors, the new development will enable seniors who live in the complex to stay in their communities for the duration of their retirement years.

Sources: Lutheran Social Services of North Dakota and North Dakota State Housing Finance Agency.

Data analysis shows extent of underwater mortgage problem in the Twin Cities

Continued from page 1

closure. These consequences ensure that underwater mortgages remain a drag on the greater economy.

A range of statewide rates

According to a report released in July 2012 by CoreLogic, a national financial, property, and consumer data analytics firm, 24 percent of residential properties in the U.S. with a mortgage were in a negative equity position at the end of the first quarter of 2012.[1] This rate, though exceptionally high by historical standards,[2] actually represents a 2 percent decrease from the end of the fourth quarter of 2011.

The Ninth Federal Reserve District has not dodged the negative equity problem, though it has fared better than the nation as a whole. According to the CoreLogic report, statewide negative equity rates in the Ninth District range from 6 percent of mortgages in North Dakota to 36 percent in Michigan. However, the Michigan figure is largely driven by the housing market in and around Detroit, which lies outside the Ninth District. Excluding Michigan, the state in the Ninth District with the highest rate of negative equity is Minnesota, at 18 percent.

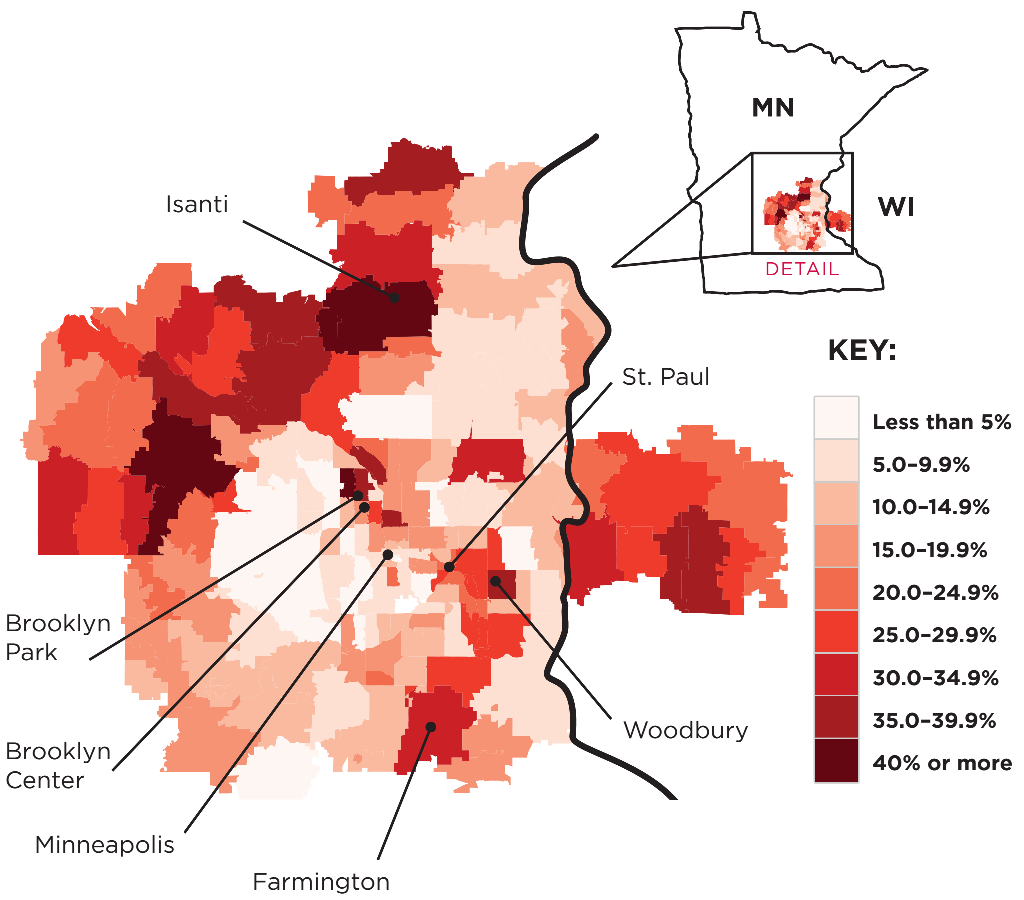
While the underwater mortgage data CoreLogic released publicly in July are useful, they do not contain enough geographic detail to provide a sense of what's happening at the community level. To better understand the distribution of underwater mortgages in the region we serve, the Community Development Department of the Federal Reserve Bank of Minneapolis developed a ZIP Code area indicator that shows the percentage of first-lien mortgages that are underwater in the Ninth District. Our analysis reveals that the greater Twin Cities area of Minnesota is the epicenter of the District's underwater mortgage problem.

Designing an indicator

To create our indicator of underwater mortgages, we combined data from two purchased datasets: the CoreLogic Home Price Index, which measures the change in home prices throughout the country; and home value and loan balance data from the Applied Analytics Residential Mortgage Servicing Database, a dataset from a mortgage-tracking firm called Loan Processing Services (LPS). The home value from LPS represents the sale or appraised value of the home when the mortgage was originated, dates that range from 1976 to 2012. We estimated the current value of the property by multiplying its value at loan origination by the subsequent percentage change in the CoreLogic Home Price Index for the property's ZIP Code area. The resulting estimate of current value was then compared to the current loan balance available from LPS.

Our approach presented a number of measurement issues. First, only first-lien mortgages were used in the comparison to home values. Thus, the actual negative equity rate is likely higher than our calculations indicate, since first mortgages issued prior to 2007 were frequently bundled with second mortgages (so-called "piggyback" mortgages). Also, because home values are seasonal, in that they tend to decline in the winter months and peak in summer, measurements of negative equity fluctuate significantly throughout the year.

Percentage of Underwater Mortgages in the Twin Cities Area by ZIP Code, June 2012



The Twin Cities market

An analysis based on our indicator shows that 16 percent of first-lien mortgages in the Twin Cities area are underwater, the highest rate for any specific area of the Ninth District. These mortgages are clustered primarily in exurban parts of the Twin Cities metro, but pockets also exist in the inner city and in inner- and outer-ring suburbs.

The District-high rate of underwater mortgages in the Twin Cities area stems from a steep rise in home values that preceded the recent economic downturn. According to the CoreLogic Home Price Index, home values in the Twin Cities metropolitan area increased at an average annual rate of 11 percent from January 2000 until reaching their peak in April 2006. As home values declined, homeowners sank deeper underwater, beginning with mortgages originated in 2006 and spreading to older and then newer originations. Due largely to the high levels of sales activity during the run up in home prices, 47 percent of currently underwater mortgages in the Twin Cities area were originated prior to 2007.

The map at left, which is drawn from the results of our indicator-based analysis, illustrates the distribution of underwater first-lien mortgages within the Twin Cities market. It shows that areas especially hard hit include the East Side of St. Paul, Brooklyn Park, Brooklyn Center, Farmington, Woodbury, and several suburban and exurban areas in Wisconsin and the northwest metro.

It follows that areas where a large proportion of mortgage originations occurred at or near the height of the housing bubble would be hit particularly hard. The 55040 ZIP Code area of the city of Isanti fits this description. The population of this exurban city boomed during the first half of the 2000–2010 decade, more than doubling from 2,324 residents in 2000 to 5,206 in 2006. Many of these new residents were first-time home buyers seeking more affordable lots farther from the central cities. Forty-three percent of first-lien mortgages in Isanti were originated prior to 2007, and 57 percent of first-lien mortgages in Isanti's 55040 ZIP Code are now underwater.

In the core of the metro area, the 55130 ZIP Code, which makes up a large portion of St. Paul's East Side, also has one of the highest rates of negative equity. Here home buying continued at relatively high levels into 2009 and 2010. Nearly 80 percent of outstanding first-lien mortgages that are currently underwater on the East Side were originated after 2007. Despite the continuing market activity, home values have steadily declined and negative equity has become entrenched.

In addition to examining the geographic distribution of first-lien mortgages that are underwater, we looked into the "depth" of the underwater problem, in terms of determining which vintage of mortgages has the highest underwater rate. Not surprisingly, we found that first-lien mortgages from 2006—the height of the housing bubble—that are still outstanding are the furthest underwater. Fifty-three percent of this cohort is estimated to be underwater in the Twin Cities area. An additional 10 percent of borrowers with first-lien mortgages originated in 2006 are estimated to have less than 5 percent equity in their homes.

As the map indicates, many areas of the Twin Cities are contending with high rates of negative equity. Pockets in other regions of the Ninth District are seeing high rates as well, although not as high as those in the Twin Cities metro. In an effort to monitor mortgage conditions and their effects on the broader economy, we are conducting ongoing analyses of mortgages in the Minneapolis-St. Paul area and other parts of the Ninth District. The results will be posted on the Minneapolis Fed's web site at www.minneapolisfed.org as we produce them. Our hope is that ZIP Code-level calculations of current housing market conditions, including but not limited to analyses of negative equity, will provide policymakers and community organizations with an additional tool for engaging in their foreclosure prevention and outreach efforts. cd

[1] *CoreLogic Negative Equity Q1 2012*, available at www.corelogic.com/about-us/research.aspx.

[2] Many housing experts argue that a healthy housing market should have fewer than 5 percent of mortgages underwater.

Free tax preparers reach out to EITC claimants

By Jacob Wascalus

Five years ago, Community Action Duluth (CAD) opened its second tax preparation site, at a West Duluth community center,[1] with the goal of encouraging eligible area residents to have their tax returns prepared there for free.

"We understood that people didn't have time to wait in line all day, so we opened a 'family site' tax center that offered scheduled appointments and child care," explains Angie Miller, executive director of CAD.

Despite quadrupling its customer base since 2005, CAD—like scores of other organizations in the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) program—continues to search for ways to attract more low-income tax filers to its offices. The potential for more outreach is reflected in data on filings for the federal Earned Income Tax Credit (EITC), which show that many low-income workers pass on free services available to them through volunteer tax preparation organizations, like CAD, and instead pay to have their taxes prepared.

"We started offering these services after many of our clients expressed regret about using commercial preparers," says Miller. "Some people were losing out on hundreds of dollars, and what really stung was that these fees would have been avoidable had they used our services."

EITC take-up by the numbers

Out of the 4.2 million tax returns filed for fiscal year 2008 across the Ninth Federal Reserve District, more than 550,000 tax filers, or 13 percent, received the EITC, for an average benefit of roughly $1,800 per filer.[2] While statewide percentages of tax filers who received the EITC fell in a fairly narrow range, from a low of 11.9 percent in Minnesota to a high of 16.3 percent in Montana, the percentage of EITC claimants who used free, third-party tax preparers varied widely. Excluding self-filers, Minnesota led the Ninth District in this category, with nearly 1 in 10 EITC claimants taking advantage of free tax preparation services. At the low end were Wisconsin and South Dakota, where 1 in 30 EITC claimants used a free service, and the Upper Peninsula of Michigan, where just 1 in 150 EITC claimants used a free service.

VITA sites fine-tune their outreach strategies

For Tax Help Montana, a coalition of VITA sites in more than 30 communities and American Indian reservations in Montana, finding ways to attract eligible tax filers to their offices is a blend of both formal and informal outreach efforts.

"About three-quarters of our new customers learn of our services through word of mouth and through our partnerships with organizations and offices that operate programs directed toward low-income residents, like Head Start and TANF [Temporary Assistance for Needy Families], and people who are getting childcare scholarships," says Karen Heisler, director of asset development at Rural Dynamics, a consumer credit counseling agency that coordinates the Tax Help Montana coalition. "But we also run public service announcements on the radio, distribute door hangers in neighborhoods that have a lot of low-income residents, and use posters at community centers."

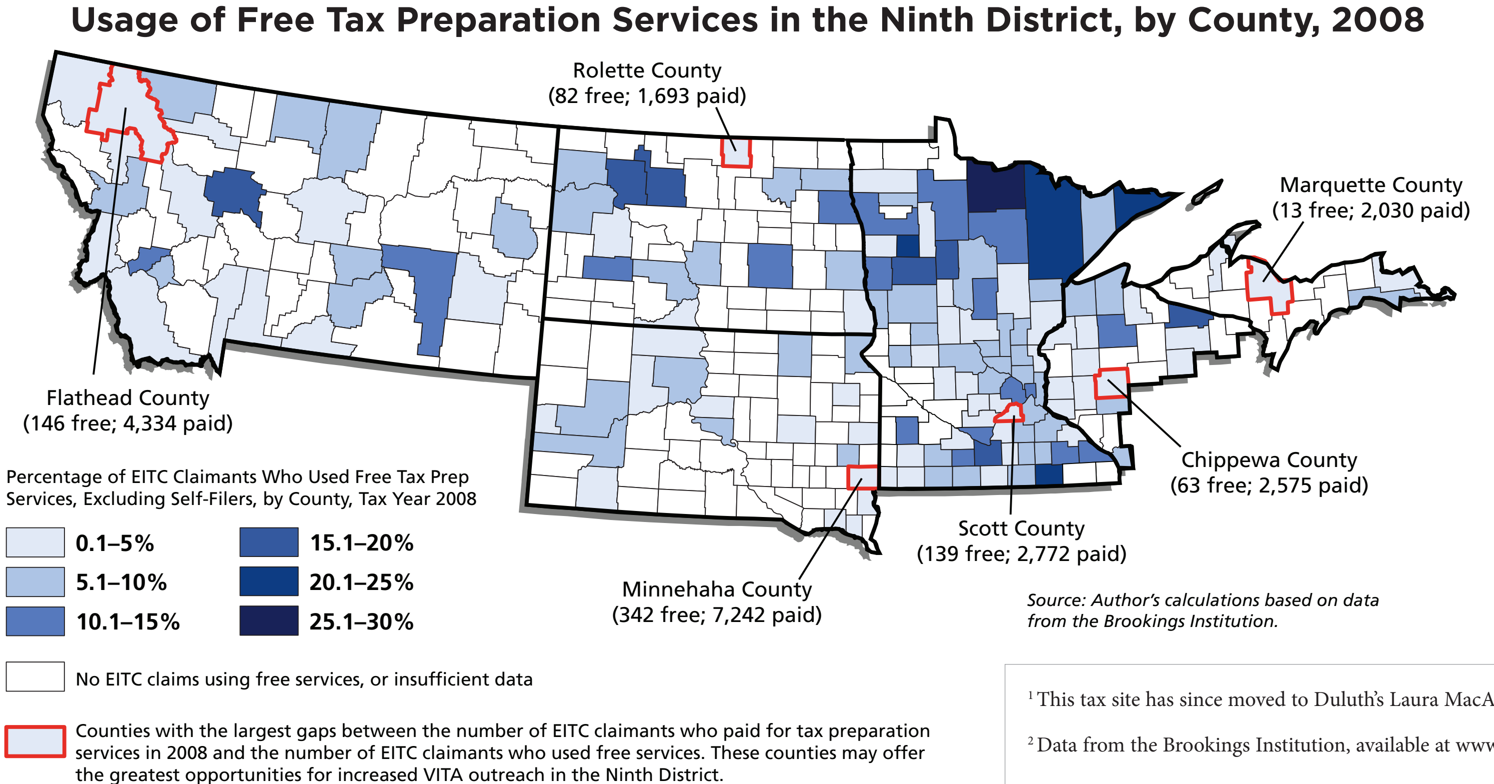
Heisler also explains that the school district in Helena permitted Tax Help Montana to notify parents of the free tax sites in the area by including a flier in students' weekly take-home paperwork.

Like Tax Help Montana, CAD reaches clients through word of mouth and print and radio ads, but it also advertises its free tax services through an insert placed in water and gas bills. According to Miller, more than 20 percent of CAD's clients for tax year 2011 learned of the free tax preparation services through the insert and the organization's other mailings. She also stresses that CAD seeks to accommodate clients' schedules by offering tax services at three different locations during a range of times, including evening and Saturday hours.

AccountAbility Minnesota (AAM), a Twin Cities-based nonprofit organization that provides free tax preparation and financial services, distributes tens of thousands of brochures to prior-year customers and to social service and economic development organizations that work with low- and moderate-income (LMI) individuals. AAM also seeks news coverage from broadcast and print media outlets and manages a statewide EITC campaign, Claim It!, that advertises on billboards, bus placards, and more.

Tracy Fischman, AAM's executive director, sums up the importance of serving LMI individuals at free tax preparation sites: "At commercial preparers, people often pay hundreds of dollars to have their taxes prepared and filed and to claim all tax refunds they have earned. When they come to a free tax site, they get to keep all of that extra income." cd

Usage of Free Tax Preparation Services in the Ninth District, by County, 2008



Source: Author's calculations based on data from the Brookings Institution.

Note: These data reflect free tax preparation services offered by VITA, Military VITA, and Tax Counseling for the Elderly.

IN BRIEF

What is the Earned Income Tax Credit?

Created in 1975, the Earned Income Tax Credit (EITC) is an Internal Revenue Service (IRS)-administered refundable tax credit available to low- and moderate-income workers. The credit reduces an individual's tax burden, which may result in a refund. For tax year 2012, the income ceiling for claiming the EITC will range from $13,980 to $50,270, depending on filing status and the number of qualifying children. The maximum credit will be $475 to $5,891. To receive the EITC, workers must file a federal tax return, even if they are not otherwise required to file because their incomes are so low.

The Volunteer Income Tax Assistance (VITA) program

Initiated in 1969, the IRS's Volunteer Income Tax Assistance (VITA) program is a network of organizations and volunteer sites where people with incomes under $50,000 can receive free tax preparation services. To locate a VITA provider, visit the IRS's VITA locator page at http://irs.treasury.gov/freetaxprep.

[1] This tax site has since moved to Duluth's Laura MacArthur Elementary School.

[2] Data from the Brookings Institution, available at www.brookings.edu/about/programs/metro/eitc/eitc-homepage.

News and Notes

Regulators extend independent foreclosure review deadline to December 31, 2012

An important deadline for borrowers who may be eligible to receive compensation for a recent mortgage foreclosure has been extended to December 31, 2012. Under the terms of an April 2011 settlement that the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency reached with a number of mortgage-servicing companies, borrowers who experienced foreclosures in 2009 or 2010 may be eligible to receive a free, independent review of their foreclosure proceedings. If the review identifies errors by the servicer that resulted in financial harm to the borrower, the borrower may receive compensation from the servicer.

Borrowers are eligible to request an independent foreclosure review if they meet the following criteria:

- The foreclosure was initiated, pending, or completed between January 1, 2009, and December 31, 2010;
- The mortgage was serviced by one of the mortgage-servicing companies involved in the settlement; and
- The property securing the loan was the borrower's primary residence.

Some examples of situations that may have led to financial harm are:

- The mortgage balance amount at the time of the foreclosure action was more than actually owed;
- The borrower was doing everything required under a loan modification agreement, but the foreclosure sale still happened;
- The foreclosure action occurred while the borrower was protected by bankruptcy;
- The borrower requested assistance/modification, submitted complete documents on time, and was waiting for a decision when the foreclosure sale occurred; and
- Fees charged or mortgage payments were inaccurately calculated, processed, or applied.

Eligible borrowers who believe they were financially harmed during the mortgage foreclosure process must submit a Request for Review form no later than December 31, 2012, as the first step toward potentially receiving compensation. Because the review process will be a thorough and complete examination of many details and documents, it could take several months to complete.

For more about the independent foreclosure review process, including an explanatory video, a list of the mortgage-servicing companies involved in the settlement, and links to a site containing an online Request for Review form, visit www.federalreserve.gov/consumerinfo/independent-foreclosure-review.htm. Borrowers can also call 888-952-9105 weekdays from 8:00 a.m. to 10:00 p.m. and Saturdays from 8:00 a.m. to 5:00 p.m. for further information. (All listed times are Eastern.)

CDFI News

Minneapolis Fed launches CDFI Resources page

The Minneapolis Fed has launched a web page for individuals and organizations that want to connect with and learn more about community development financial institutions, or CDFIs. A CDFI is a specialized entity that provides loans, investments, training, or other services in underserved or economically distressed areas. The new web page, called CDFI Resources, features CDFI-related news, a timeline illustrating the history of the CDFI industry, information on the types of CDFIs and the services they provide, an archive of relevant articles and reports, links to CDFI support organizations and networks, and a "Find a CDFI" search function that enables users to locate CDFIs in their area. To explore the site, visit www.minneapolisfed.org/community_education/cdfi.

U.S. Treasury awards $187 million to CDFIs

In its largest-ever round of funding, the U.S. Department of the Treasury has awarded a total of nearly $187 million to 210 CDFIs headquartered in 41 states and the District of Columbia. The Treasury's CDFI Fund, which certifies and provides support for CDFIs, allocated the record amount of awards through the 2012 round of its Financial Assistance, Technical Assistance, Healthy Food Financing, and Native American CDFI Assistance (NACA) programs.

Eleven of the NACA awards, ranging from $74,088 to $750,000 and totaling nearly $4.2 million, went to CDFIs headquartered in the Ninth Federal Reserve District that primarily serve Native American communities. A total of more than $12.6 million of the remaining awards, ranging from $62,850 to $1,453,806 (the maximum award amount), went to 14 other CDFIs headquartered in the Ninth District. For a list of awardees and award amounts, visit the News & Events section of the CDFI Fund's web site at www.cdfifund.gov.

Goldman Sachs awards $4.4 million to Montana CDC

Montana Community Development Corporation (CDC) will receive $4.4 million from Goldman Sachs to support entrepreneurship and small business development in rural areas throughout Montana. The bulk of the award, $4 million, will go directly into Montana CDC's loan fund, which lends to small businesses across the state. The remaining $400,000 will be dedicated to capacity building for Montana CDC's business services. The funds were awarded through the Goldman Sachs 10,000 Small Businesses initiative, a $500 million effort that aims to unlock the growth and job-creation potential of 10,000 small businesses across the U.S.

Report examines realities of payday loans

The realities of payday loan usage don't match the marketing messages sent by payday loan providers, according to a recent report from the Pew Charitable Trusts (Pew). *Payday Lending in America: Who Borrows, Where They Borrow, and Why* uses data from state-level financial regulators, a nationally representative telephone survey, and a series of focus groups to examine the financial behavior and demographic characteristics of payday loan borrowers.

A payday loan is a short-term loan that is secured by the borrower's next paycheck. The loans typically have terms of about two weeks, feature high APRs (annual percentage rates), and carry large late-payment fees. Payday loan providers tend to advertise their products as a short-lived means of covering an unexpected financial need. But regulatory data cited in the Pew report show that, on average, a payday loan borrower takes out eight loans in a year, often renewing an existing loan or taking out a new loan shortly after repaying the previous one. Each loan term lasts an average of 18 days, leaving the borrower indebted to the lender for a total of five months a year. Furthermore, most borrowers use payday loans to cover regular, ongoing expenses, not financial emergencies. In Pew's telephone survey, 69 percent of respondents reported taking out their first payday loan to cover recurring expenses, such as utilities, food, or rent. Only 16 percent reported taking out their first payday loan to cover an unexpected expense, such as a car repair or medical bill.

According to the report, approximately 12 million Americans a year take out payday loans. More than half of borrowers are white, more than half are female, and more than half are 25–44 years old. However, after controlling for other characteristics, the report's authors identified five groups that are at least 50 percent more likely than others to take out payday loans: African Americans, those who are separated or divorced, those with less than a four-year college degree, those earning less than $40,000 a year, and those who rent their homes.

To access the report, visit www.pewtrusts.org/small-loans.

Calendar

SAVE THE DATE!

Resilience and Rebuilding for Low-Income Communities: Research to Inform Policy and Practice

The Eighth Biennial Federal Reserve Community Development Research Conference

April 11–12, 2013, in Washington, D.C.

The Community Affairs Officers of the Federal Reserve System invite researchers, policymakers, and community development practitioners for a gathering to explore collaborative, emerging strategies and policies that forge vibrant and resilient communities and consumers. For additional information, e-mail Karen Leone de Nie of the Federal Reserve Bank of Atlanta at karen.leonedenie@atl.frb.org.