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Community Dividend

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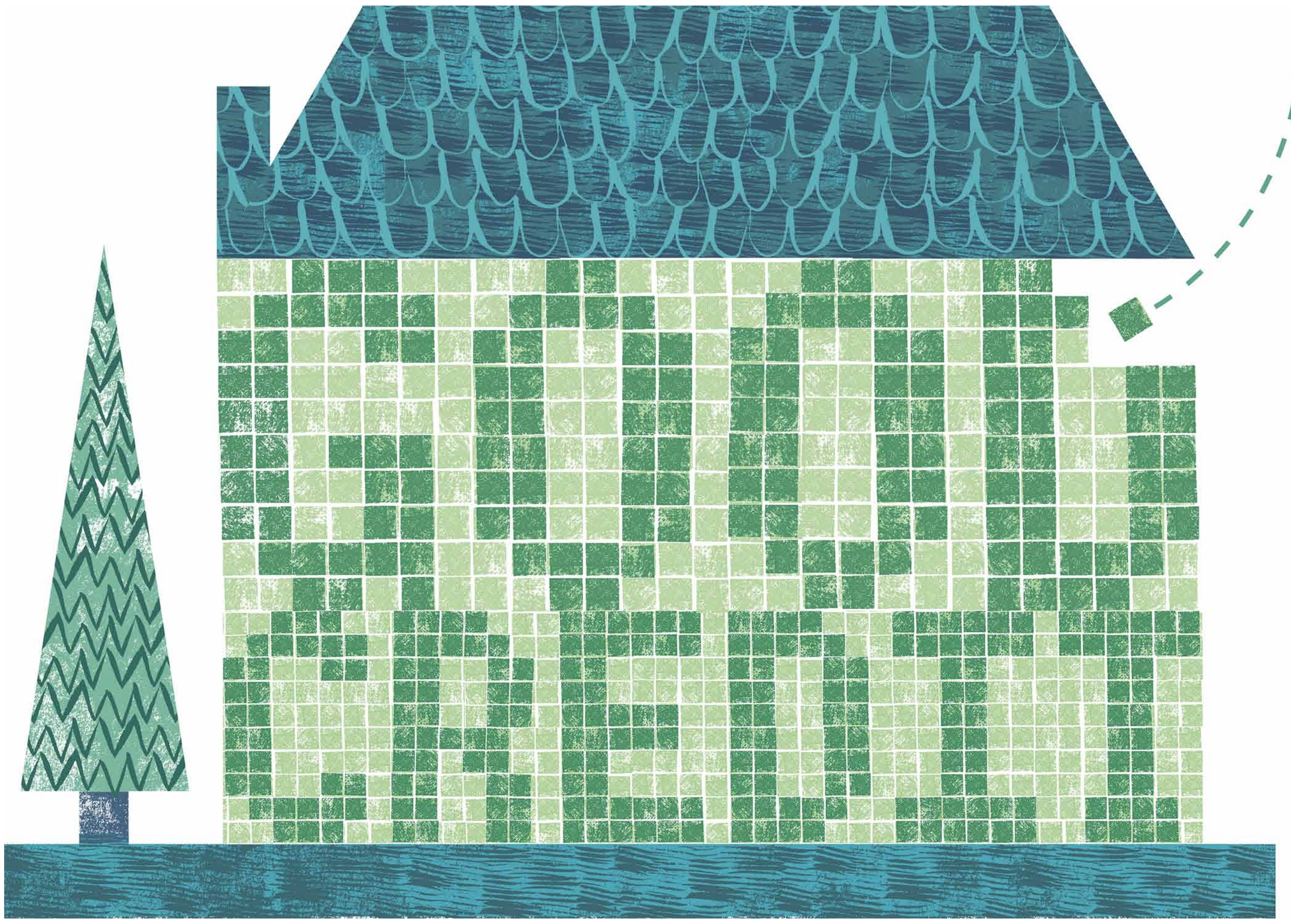

ILLUSTRATION BY JAMES O'BRIEN

Contract for deed emerges as a tool for affordable housing organizations

By Jacob Wascalus

Over the past several years, contracts for deed have emerged as increasingly popular home-purchase arrangements for prospective buyers in the Minneapolis-St. Paul area, particularly for those who lack the ability to obtain traditional financing. In a contract-for-deed transaction, the seller rather than a third-party lender finances the purchase of a property. The terms of the sale are spelled out in an agreed-upon home-purchase contract that lists the selling price, interest rate, time frame, amount of principal and interest applied with each payment, etc. And rather than cutting a monthly mortgage check to a bank or other financial institution, the buyer pays the seller directly. Most contracts for deed require the buyer to make installment payments—on a monthly basis, typically—until the end of the contract term and then make one

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Federal initiative brings healthy fare to food deserts

By Jacob Wascalus

For Tawney Brunsch, a troubling aspect of life for the people who live on the Pine Ridge Indian Reservation is the great distance that many have to travel to access healthy foods.

"This is a very prominent problem," says the executive director of Lakota Funds, a community development financial institution (CDFI)[1] that promotes socioeconomic sustainability on the southwestern South Dakota reservation. At 3,468 square miles, Pine Ridge is larger than the state of Delaware, and according to Brunsch, "some people have to travel more than an hour just to get to a grocery store."

To help address the access issue, Brunsch and her Lakota Funds colleague Tonia Young have organized farmers markets for the past two years that sell locally grown produce on the reservation. Sales have been growing, yet the markets still aren't reaching everyone. More than 18,000 people live on Pine Ridge,[2] and the four farmers market sites, as well as the reservation's three grocery stores, are still difficult to access for thousands of people.

But last year Brunsch and Young had a brainstorm: What if we brought healthy food to the people by driving around the reservation and holding temporary markets in different locations?

"That way, we could reach more people in more areas," Young explains. "If we were to set up only in Kyle, which is the

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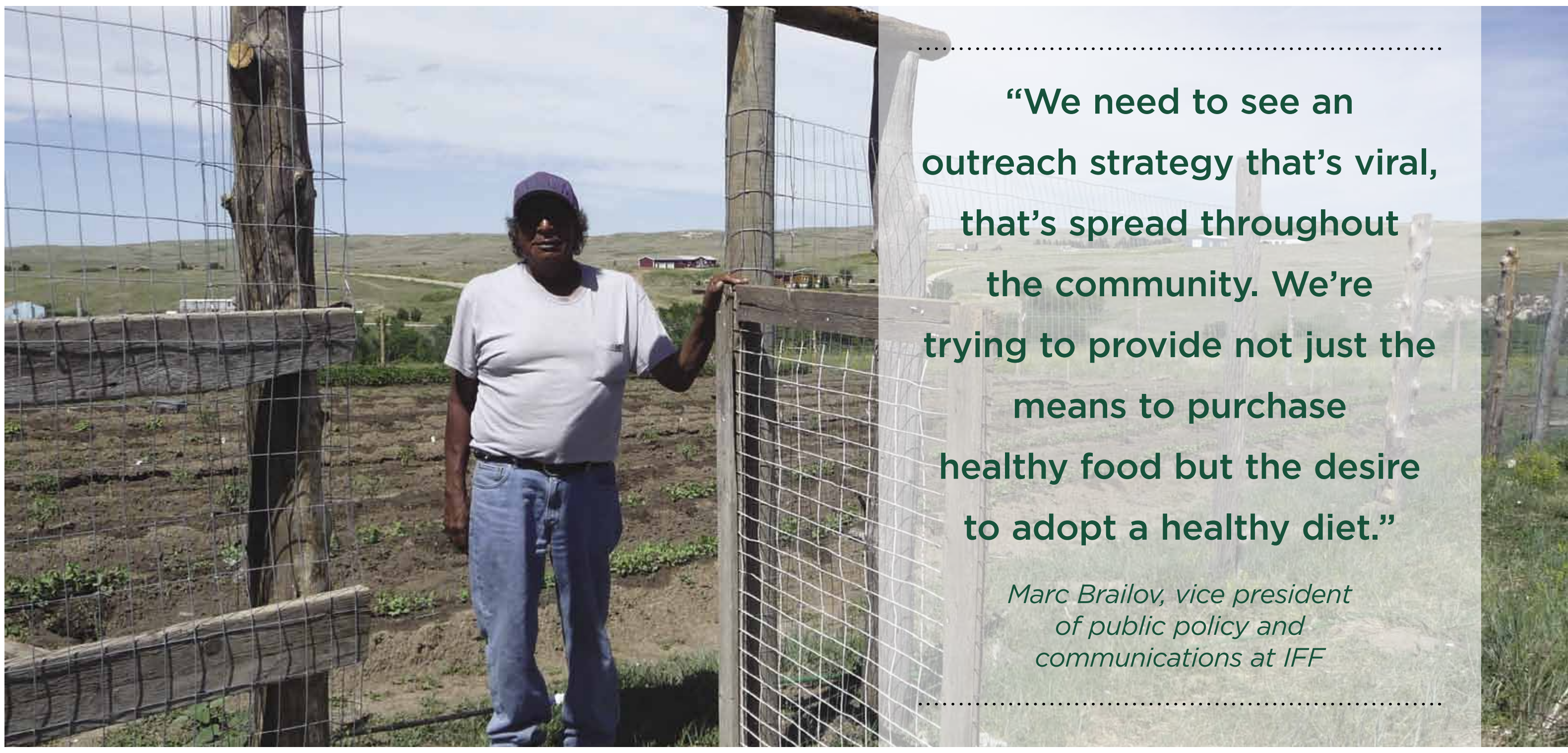

PHOTO BY CUNY COMMUNICATIONS

"We need to see an outreach strategy that's viral, that's spread throughout the community. We're trying to provide not just the means to purchase healthy food but the desire to adopt a healthy diet."

Marc Brailov, vice president of public policy and communications at IFF

John Yellow Hawk of the Pine Ridge Indian Reservation in South Dakota greets visitors to his 10,000-square-foot garden, where he grows produce sold at mobile farmers markets that are supported by funding from the federal government's Healthy Food Financing Initiative (HFFI).

Federal initiative brings healthy fare to food deserts

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geographic center of the reservation, we'd be missing thousands of people. But having a mobile market would allow us to access many corners of the reservation."

To help turn the idea into a reality, Lakota Funds sought and received a $71,000 grant that the United States Department of Agriculture (USDA) made in support of the federal government's Healthy Food Financing Initiative (HFFI). Announced in 2010, the HFFI is a collaborative endeavor of three federal agencies—the Treasury Department, the Department of Health and Human Services (HHS), and the USDA—to increase the supply of and demand for nutritious foods in urban and rural areas where access to healthy food is low. For urban settings, the USDA defines "low access" as someone living more than one mile from a supermarket or large grocery store. For rural census tracts, the threshold is more than ten miles. Low-access areas, commonly called "food deserts," are home to an estimated 23.5 million people nationwide, more than half of whom—13.5 million—are low-income.[3]

The change envisioned by the HFFI is comprehensive. By directing tax credits, grants, and low-cost loans to a range of projects, the three federal partner agencies aim to strengthen the nation's healthy food infrastructure in order to bring nutritious fare to food deserts, reduce childhood obesity, expand the number of quality jobs, spur "livable communities" and business growth, and create new opportunities for agricultural producers. Notably, the initiative primes public-private collaborations and attracts financial capital from banks and other investors.[4]

Endless possibilities

To date, the Treasury Department has granted nearly $48 million in HFFI financial assistance to 19 organizations and the HHS has granted $20 million to 28 organizations. The USDA does not have congressional authorization to specifically direct funding toward HFFI-labeled projects, but it continues to fund healthy food initiatives through its Rural Business Enterprise Grants, Farmers Market Promotion Program (FMPP), and other grant and loan opportunities.

A key aspect of the USDA's FMPP is its ability to enable farmers markets to accept food stamps, formally called Supplemental Nutrition Assistance Program (SNAP) benefits. The Lakota Funds' mobile farmers market project, which is funded through the FMPP, is incorporating this innovation into its mobile markets payment system.

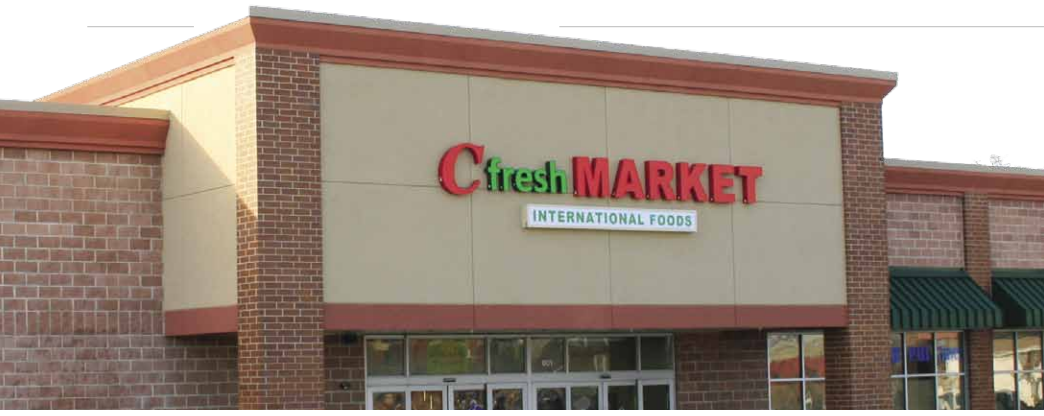
According to Brunsch, this added capability opens up the mobile market to many of the 1,400 families on the reservation that receive SNAP benefits.[5] She explains: "They can use their EBT cards [electronic benefits transfer cards, on which SNAP benefits are stored] to purchase all types of fruits and vegetables—from staples like corn, potatoes, and tomatoes, to more obscure vegetables like kohlrabi and leeks." Other vegetables available at these markets include squash, cucumbers, peas, carrots, radishes, and eggplants.

Brunsch and Young are working with about ten producers, all of whom live and farm on the reservation, to grow produce for the roughly 12-week selling season. And to help the growers learn about the different aspects of local food entrepreneurship, Lakota Funds has partnered with South Dakota State University-Extension to conduct training sessions on creating and running farmers markets, marketing food and food products, handling food safely, using commercial kitchens, and building a community-supported agriculture[6] program.

"The possibilities with this project are really endless," says Brunsch, noting that Shannon County, which lies entirely in the reservation, has a per capita annual income that is among the lowest in the nation, at $7,887.[7] "These mobile markets are going to be beneficial not just to the individual growers, who can develop this into a serious income stream, but also to the consumers, who will have much easier access to healthy food grown right here on the reservation."

Grocery oasis opens in food desert

While the HFFI supports projects that combat food-access issues in rural food deserts, it also invests in projects that promote food access in urban areas. The C Fresh Market, located immediately north of downtown Des Moines, is the first full-service food retailer to operate in this area of Iowa's capital city since 2004. The 20,687-square-foot store, which opened for business in January 2013,



The C Fresh Market is the first full-service food retailer to operate in its Des Moines neighborhood in nearly a decade. Roughly one-third of the market's financing came from an HFFI-funded loan.

PHOTOS COURTESY OF IFF

During the store's grand opening, C Fresh Market employees greet their first official customer.

sells a mix of conventional and ethnic food, including fresh meat and produce, in order to meet the dietary needs and preferences of the area's diverse population, which is made up of African American, White, Asian, and Latino residents.

"This is the first HFFI-funded grocery store in the state of Iowa," says Marc Brailov, vice president of public policy and communications at IFF, a Chicago-based CDFI that serves Illinois, Indiana, Iowa, Missouri, and Wisconsin. IFF provided a $712,000 loan to help finance the C Fresh Market's $2.3 million price tag.

The area where the store opened typifies the food-scarce environments for which HFFI interventions are intended. Before the store's debut, all 4,043 people living in its census tract—37 percent of whom are low-income—experienced low access to a grocery store. Now, since the store's arrival, the area's former appellation—food desert—is obsolete.

Since 2011, IFF has received $6 million from the Treasury Department to make loans to bricks-and-mortar healthy food projects in the Midwest, leveraging investment capital from private organizations to support projects such as the C Fresh Market. Moreover, while IFF uses the HFFI funding to boost the availability of healthy food in food-scarce areas, it also uses it to increase the demand for healthy food.

To that end, IFF requires funding recipients to devise detailed community-engagement strategies that promote healthy eating habits. According to Brailov, these strategies must be comprehensive and include educational efforts both in the stores themselves and out in the community.

"We need to see an outreach strategy that's viral, that's spread throughout the community," he says. "We're trying to provide not just the means to purchase healthy food but the desire to adopt a healthy diet."

Expanding to strengthen the community and add jobs

As the unofficial epicenter of Minneapolis's Latino community, the Lake Street corridor in South Minneapolis is home to thousands of Latino immigrants and scores of Latino-owned businesses. The area's commercial landscape is dominated by mom-and-pop enterprises—*taquerías, mercados,* clothing stores—and while this area isn't a food desert, it is nevertheless in need of economic investment and more quality jobs, a goal of the HFFI campaign.

El Chinelo, a wholesale and retail grocery store specializing in Latino foods, is one business that seeks to fulfill those needs. Operating in South Minneapolis for more than a decade, the small business draws a robust number of customers and boasts sales receipts upwards of $3 million a year. But to reach the level of growth that the owners desire—and provide accompanying economic benefits to the area—the store needs to expand.

"This is the type of business that can anchor a community," says John Flory, a special projects director at the Latino Economic Development Center (LEDC), a Minneapolis-based CDFI promoting economic opportunity for Latinos. The LEDC received a $788,000 HFFI grant from the HHS's Community Economic Development program in 2012 and has dedicated a portion of the funding to expanding El Chinelo.

Recognizing the economic and employment opportunities associated with an expansion, Flory has been working with the business's owners to move their retail operation to a 6000-square-foot building where they can set up a butcher shop, kitchen, and deli operation—a full-service retail grocery. Because El Chinelo's owners would like to purchase the building, LEDC has drawn from its HFFI grant to make available a low-interest equity-matching loan of up to $200,000 that the business can use to secure additional financing. According to Flory, the owners will be able to double their money with the equity-matching loan as they pursue funding for the total cost of the project, estimated to be between $800,000 and $1 million.

"This HFFI funding will allow us to offer subordinated debt on projects like the El Chinelo expansion that can be used to leverage conventional financing," explains Flory, noting that LEDC's loan would be paid off in three to five years. "Getting this deal done is still an uphill battle, but it'll create good jobs and provide an economic boost to the area."

Creating a critical mass

To borrow Flory's wording, there are likely many uphill battles ahead in the effort to eliminate food deserts and replace them with healthy food environments. Accomplishing those goals would be a tall task for a single federal agency. Indeed, the likelihood that an individual department or program could catalyze the widespread change needed to create a truly healthy, truly comprehensive food environment is very small. But projects like the Lakota Funds mobile markets, C Fresh grocery store, and El Chinelo expansion suggest that when multiple federal programs with overlapping goals fund a multitude of projects, they may be able to create the critical mass necessary to make healthy food environments a reality for millions more Americans. cd

[1]CDFIs are specialized entities that provide lending, investments, and other financial services in economically distressed communities. For more information, visit the Minneapolis Fed's CDFI Resources web page at www.minneapolisfed.org/community_education/cdfi.

[2]This population figure is from the 2010 U.S. Census. Other estimates put the figure at closer to 28,000.

[3]Per the USDA, *low income* is defined here as "annual household income less than or equal to 200 percent of Federal poverty thresholds for family size." See apps.ams.usda.gov/fooddeserts/foodDeserts.aspx.

[4]For more details about the initiative, see *Healthy Food Financing Initiative: Implementation Plan,* May 2010, at www.usda.gov.

[5]U.S. Census Bureau, 2011 American Community Survey Five-Year Estimate.

[6]Community-supported agriculture, or CSA, is a farming model in which consumers buy directly from a farm by purchasing shares of the farm's seasonal yield. For more information on CSAs, visit www.localharvest.org.

[7]See footnote 5.

April is Financial Literacy Month

Advocates at the national and state levels have named April "Financial Literacy Month" to raise awareness of the need for personal financial education at all stages of life. Promotional events will take place at multiple locations in April and early May. Some highlights:

Events at the Federal Reserve Bank of Minneapolis

Personal Finance Decathlon State Championship

April 17

High school students from around Minnesota will test their knowledge of topics such as budgeting, saving, and investing as they compete for a place in the Personal Finance Decathlon National Championship in St. Louis on May 2. Sponsored by the Minnesota Council on Economic Education.

www.mcee.umn.edu/programs/decathlon.html

Partnerships to Pay It Forward: Working Together to Empower Minnesotans for a Strong Financial Future

April 18

Gina Blayney, president and CEO of Junior Achievement of the Upper Midwest, will present findings from a series of educator interviews about financial literacy trends and strategies. This event will also feature a trade show and tours of the Minneapolis Fed. Sponsored by the Minnesota Jump$tart Coalition.

mnjumpstart2012.eventbrite.com

11th Annual Financial Literacy Day on Capitol Hill

April 26, Washington, D.C.

A resource fair showcasing financial literacy products and programs from more than 60 organizations. Sponsored by the national Jump$tart Coalition for Personal Financial Literacy, the American Institute of CPAs, the National Association of Retail Collection Attorneys, and Visa, Inc.

www.jumpstart.org/hill-day.html

Conquering the Cliff: The Annual North Dakota Jump$tart Conference

Bismarck, May 2

www.ndjumpstart.org

Banking answers abound at Federal Reserve Consumer Help

By Jacob Wascalus

One question that representatives of the Federal Reserve Consumer Help (FRCH) department answer regularly is, What should people do with currency that's been defaced or damaged?

"There are a lot of people with torn or waterlogged, moldy bills," says FRCH representative Rachel Lynch, "and they don't know what to do with them." Each year, FRCH fields this question—or a variation of it—scores of times. The department, launched in 2007, is the Federal Reserve System's centralized inquiry- and complaint-intake function, charged with assisting people who have a problem related to their financial institution or a question or concern of a financial or banking nature, such as whether a bank must cash checks for noncustomers. (The answer is no.) FRCH service representatives either answer the question directly or refer the consumer to the appropriate regulator who can resolve it. In 2012, the department received more than 39,000 complaints and inquiries on topics ranging from overdraft fees to the sometimes byzantine mortgage foreclosure process. FRCH also answers inquiries outside of its consumer protection purview, such as the aforementioned question about defaced or damaged currency. To get a better understanding of common consumer inquiries, *Community Dividend* asked FRCH for a list of its most frequently asked questions, which are presented below.

Q How do I file a complaint about my bank?

A A consumer may file a formal complaint against a financial institution for any number of reasons, such as poor customer service, excessive fees, or contract issues. FRCH provides four ways to file a complaint:

- Online, via an online complaint form at www.federalreserveconsumerhelp.gov;
- By e-mail at ConsumerHelp@federalreserve.gov;
- By mail at Federal Reserve Consumer Help, P.O. Box 1200, Minneapolis, MN 55480; or
- By fax at 877-888-2520.

All complaints submitted to FRCH are acknowledged within 15 business days and forwarded to and investigated by the regulatory agency tasked with overseeing the financial institution's compliance with federal consumer protection laws. These regulators include the Federal Reserve System's banking supervision function, the Consumer Financial Protection Bureau, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Complaints involving financial institutions supervised by the Federal Reserve System are resolved within 30–60 days; complaint-resolution time frames for other regulators may differ.

FRCH also helps consumers with questions about completing the online complaint form, navigating the FRCH web site, or following the complaint-intake process. FRCH operates weekdays from 8:00 a.m. to 6:00 p.m. Central time and its Interactive Voice Response service, an automated phone service that allows consumers to leave a message or hear answers to frequently asked questions, is available 24 hours a day.

Q Why was my loan denied? or Why did I receive a loan denial letter?

A Consumers who receive notices from their financial institutions stating that their loan applications have been denied often contact FRCH for more information, either because they seek to understand why the application was denied or because they received a denial notice without having knowingly applied for a loan from that financial institution in the first place. To address the former inquiry, FRCH informs the consumer that the Federal Reserve does not influence financial institutions' lending decisions, nor does it have any information about the application in question. For the latter inquiry, FRCH explains that when a consumer applies for a loan through a business, such as financing for a car through an automobile dealership, the business will often send out loan applications on the consumer's behalf to multiple financial institutions, some of which may deny the loan. By law, financial institutions supervised by the Federal Reserve System are required to include FRCH's contact information on their denial letters to ensure that consumers know where to file formal complaints. When FRCH receives these inquiries, it suggests that the consumers contact the financial institution that denied the credit application for more information.

The department, launched in 2007, is the Federal Reserve System's centralized inquiry- and complaint-intake function.

Federal Reserve Consumer Help's mission

To promptly and courteously guide consumers with complaints about financial institutions to the appropriate agency for help. We also respond to consumer questions about federal consumer protection laws and regulations.

Q How do I reach my financial institution or the agency supervising my financial institution?

A If consumers wish to contact their financial institutions about a banking matter—to inquire about a bill or default notice they've received, for example—but don't know the phone number or address, FRCH representatives direct them to accurate contact information. Likewise, FRCH provides consumers with contact information for federal and state financial regulatory agencies.

Q How do I order a free credit report? and How can I correct information on my credit report?

A Consumers are entitled to one free credit report per year from each of the three national consumer reporting agencies—Equifax, Experian, and TransUnion—and can request the reports by visiting www.annualcreditreport.com. Consumers also have a right to free credit reports under other specific circumstances, such as when a financial institution denies them credit based on information in their credit reports. In such cases, the name of the credit reporting agency used by the financial institution will appear on the denial notice.

Consumers wishing to correct information on their credit reports should contact the credit reporting agency in question or the financial institution providing the inaccurate information to the credit reporting agency. FRCH provides information on how to contact each credit reporting agency.

Q How do I redeem or change the information on a savings bond?

A The Federal Reserve System operates a Treasury Services function that serves as the U.S. Department of the Treasury's fiscal agent for U.S. Savings Bonds and Treasury securities. Consumers calling FRCH with any questions related to federal savings bonds are directed to the Treasury Services savings bond department at 1-800-553-2663. Questions or problems regarding Treasury securities can be resolved by calling the Treasury Services securities area at 1-800-722-2678.

Q I received an official-looking letter [or e-mail] that claims to be from a financial institution. Is it actually a scam? And what should I do if I am a victim of a scam?

A When consumers contact FRCH to inquire about the integrity of a letter or e-mail, FRCH representatives confirm whether the communication is a known scam and advise callers to exercise caution, especially when handling a potentially malicious e-mail. Consumers who have already fallen victim to a scam by providing deposit account information or sending money electronically should notify their financial institutions immediately, file a police report, and contact the local FBI office. (FRCH maintains a contact list of local FBI offices.) If a consumer reports a scam that FRCH is unaware of—especially one that uses the Federal Reserve System name—FRCH representatives may request that the consumer provide them with a copy of the e-mail or correspondence so that the scam can be investigated further.

FRCH receives inquiries on scores of other topics related and unrelated to financial institutions. Some can be answered readily (e.g., What's the correct form I need to fill out for my specific situation?) but others require some investigating (e.g., Can my bank offset my checking account to pay my loan, or What is the legal process for escheating a checking account to the state?). FRCH representatives won't always know the answer, but they are committed to helping consumers track down the correct resource.

For questions about damaged currency, however, the answer is pretty straightforward. Says Lynch: "Consumers should contact the U.S. Bureau of Engraving and Printing, Mutilated Currency Division." Its phone number is 1-866-575-2361 and its web site is www.moneyfactory.gov/damagedcurrencyclaim.html. cd

Legal settlements in Indian Country prompt revival of Native Financial Education Coalition

By Leslie Wheelock and Richard M. Todd

What should you do if, after a lengthy legal battle, you suddenly receive a $1,000 settlement? Should you spend it all—either on something long-lasting, like a household appliance, or something fleeting, like a vacation? Use it to pay bills? Save it for a rainy day? Add it to a retirement fund? Maybe some of each? How would your answer change if you got $10,000? How about $50,000?

Tens of thousands of Native American individuals have recently been asking themselves these questions, after many separate, long-running lawsuits brought against the federal government by Native individuals and dozens of tribes all began to disburse settlement payments in 2012. (For specifics on the lawsuits, see the sidebar below.) Payments to individuals range from hundreds of dollars to, in some cases, at least $50,000. Many of the settlement checks were distributed in late 2012 and most of the remainder will flow out in 2013.

This flow of cash raised not only the personal finance questions listed above but also issues stemming from the fact that most reservation communities have limited banking services and few sources of tax and investment advice. By spring 2012, the National Congress of American Indians (NCAI), a leading nonprofit educational and advocacy organization serving American Indian tribes and communities, saw that predatory scams aimed at payment recipients could be a looming problem and decided to take action.

As Jacqueline Johnson Pata, NCAI's executive director, puts it, "So much money hitting tribal communities around the same time meant that there was a critical need to get information out to our leaders and our people—to raise awareness and to help protect them."

"People who had been part of NFEC in the past are so excited and eager about a renewed effort to activate the coalition, and every day I hear from new people who want to be involved going forward."

Sherry Salway Black, director of NCAI's Partnership for Tribal Governance and former NFEC chair

PHOTO BY PAULA WOESSNER

In response to the immediate concerns, NCAI, with assistance from the Federal Trade Commission and Consumer Financial Protection Bureau, sent basic financial, tax, and consumer protection information to tribes and recipients ahead of or with the settlement checks. This work, which NCAI named the Protect Native Money campaign (www.ncai.org/protectnativemoney), continues in 2013 as needed.

The challenge of getting the information out quickly was eased by the legacy of the Native Financial Education Coalition (NFEC), an organization that had been dormant for the last few years. The NFEC was born late in the Clinton Administration as part of an initiative promoting financial education in communities of color. According to Sherry Salway Black, former NFEC chair and current director of the NCAI initiative that took the lead on the Protect Native Money campaign, "During the 2000s, the NFEC helped raise awareness about the importance of financial education and built a strong network that still exists." However, by 2009, a series of organizational changes and pressures related to the Great Recession reduced the NFEC to inactivity.

To get its information out to settlement recipients quickly in 2012–2013, the NCAI used NFEC's records to reactivate the coalition's network of individuals and organizations. While organizing the Protect Native Money Campaign, NCAI also started an outreach effort to revive the NFEC, in the hopes of reinstating the coalition as a valuable partner for raising financial awareness in Indian Country. Working with many people and organizations key to NFEC's earlier success, NCAI organized three meetings of interested individuals representing tribes, Native and non-Native financial education organizations, financial institutions, government programs, and more. NCAI's Sherry Salway Black is leading this effort, too.

"People who had been part of NFEC in the past are so excited and eager about a renewed effort to activate the coalition," she notes. "And every day I hear from new people who want to be involved going forward."

Now that the immediate settlement payment issues are winding down, Salway Black wants to focus on long-term financial capability in Indian Country and sees the NFEC as integral to that effort. As a first step in designing a long-term plan for sustaining the coalition, in February NCAI convened a working group of volunteers to craft an NFEC agenda, develop an operating structure, and plan efforts for Financial Education Month in April.

Individuals and organizations with an interest in promoting financial knowledge and capacity in Native communities are welcome to join the resurgent NFEC. To sign up to receive news and information about the coalition's revival, e-mail your name, organization name, and contact information to nfec@ncai.org.

Leslie Wheelock serves as director of economic policy at NCAI. cd

Settling up

Key facts about the major lawsuits that have recently generated settlement payments to tribes and Native individuals

Cobell v. Salazar, a lawsuit over breaches of trust regarding the management of Individual Indian Money (IIM) accounts held by the federal government, was filed in 1995. A settlement agreement was reached in December 2009 and legislation authorizing payments was passed and signed in December 2010. The total settlement is $3.4 billion; of this amount, $1.4 billion in payments to IIM account holders began in 2012. For more on *Cobell v. Salazar,* visit www.indiantrust.com.

The ***Keepseagle v. Vilsack*** lawsuit, filed in December 1999, was brought on behalf of Native farmers and ranchers over discriminatory lending practices by the U.S. Department of Agriculture from 1981 through 1999. The suit's December 2011 settlement totals $760 million to more than 4,300 Native farmers and ranchers. Payments of $50,000 to more than 95 percent of the class started in August 2012. For more on *Keepseagle v. Vilsack,* visit www.indianfarmclass.com.

In April 2012, the Department of Justice announced that more than 40 ***tribal trust fund cases***—some dating back 100 years—had been settled, resulting in payment of over $1 billion to the tribes concerned. Many tribal governments elected to distribute a portion of these funds to individual tribal members as per capita payments. Additional tribal trust cases have been resolved since April 2012 and dozens more are in negotiations. For more on one of the major cases that was settled, visit www.tribaltrust.com.

Contract for deed emerges as a tool for affordable housing organizations

Continued from page 1

large “balloon” payment to pay off the remainder of what is owed. To cover the balloon payment, buyers typically pursue traditional mortgages from third-party lenders.

Recent media coverage has exposed the negative side of contract-for-deed arrangements. Unlike traditional mortgages, contracts for deed are not subject to an array of regulations, underwriting standards, and disclosure requirements. The lack of standards and oversight can lead to abuses, such as those described in an article in the Twin Cities’ *Star Tribune* newspaper about landlords using contracts for deed to bypass rental property laws and sell subpar houses directly to their tenants.[1] However, contracts for deed have emerged as a useful vehicle for a few Twin Cities-based nonprofits to pursue their housing stabilization missions. One such organization is the Greater Metropolitan Housing Corporation (GMHC), a Minneapolis-based nonprofit that works to preserve, improve, and increase affordable housing for low- and moderate-income people. Through its Sustainable Home Ownership Program (SHOP), which was launched in 2008 in partnership with a housing stabilization organization in St. Paul called Dayton’s Bluff Neighborhood Housing Services, GMHC operates Bridge to Success, a contract-for-deed program that provides an affordable home-buying option for individuals who cannot yet qualify for a traditional mortgage.

The Bridge to Success contract-for-deed program has financed the sale of more than 60 homes through its current funding pool and pilot programs.[2] Once SHOP meets a goal of increasing the Bridge to Success loan pool to $50 million, it should have the capacity to finance the purchase of 400 homes. To be eligible for purchase through the program, homes must be priced no higher than $225,000 and located in areas of the Twin Cities that are in moderate to high need of stabilization.[3] So far, the average sticker price is $126,000.

In a Bridge to Success purchase, there are two back-to-back transactions. First, after finding a home to buy and negotiating a sales price with the seller, a SHOP-approved buyer signs a purchase agreement that assigns the seller’s rights in the agreement to SHOP and places SHOP in possession of the home’s title. Next, SHOP completes the sale by executing a contract for deed with the buyer. The seller, who is typically an individual or a developer that rehabs foreclosed properties, is paid according to the terms of the purchase agreement.

Bridge to Success buyers build equity over time and can deduct their interest payments and real estate taxes, just as a mortgage holder can. Although the contract term is 10 years, the contracts are amortized as if they lasted 30 years. That makes the monthly interest payments more affordable. Eighty percent of the homes sold through SHOP’s Bridge to Success program must be to households that earn less than 115 percent of the area median household income, or approximately $96,000.[4] No minimum credit score is required, but all buyers must invest a minimum of $2,000 or 2 percent of the sale price, whichever is less. Once buyers succeed in removing the barriers to credit that prevented them from obtaining a conventional or FHA (Federal Housing Administration) loan, they are strongly encouraged to refinance to a traditional mortgage.

Community Dividend spoke with Gary Beatty, vice president of GMHC’s SHOP Home Mortgage division, to discuss other details of the Bridge to Success program and to learn more about how contracts for deed can be a tool for making homeownership a reality.

Once buyers succeed in removing the barriers to credit that prevented them from obtaining a conventional or FHA (Federal Housing Administration) loan, they are strongly encouraged to refinance to a traditional mortgage.

Two other Twin Cities nonprofits offer up contract-for-deed options

In addition to the options available through SHOP’s Bridge to Success program, two other Twin Cities-based contract-for-deed programs offer eligible households the opportunity to own a home: the MCASA Homes program and the Project: Reclaim program.

Taking it six months at a time

Established in 2004, the St. Paul-based MCASA Homes program is operated by the Model Cities Community Development Corporation (Model Cities) and the Aurora St. Anthony Neighborhood Development Corporation. As part of its housing stabilization efforts, the program has sold six homes under contract-for-deed terms. (Ten additional homes have been purchased through a lease-to-purchase option that the program also offers).

Like the SHOP program, the MCASA program uses financial counselors to help low- and moderate-income home buyers repair their credit and financial standing so they can successfully transition to a standard bank mortgage. But unlike the set ten-year time frame in SHOP’s contract terms, the MCASA program establishes its contracts without fixed end dates.

“We contract with the home buyers six months at a time,” says Model Cities Project Manager Dale Cooney. “If they’re meeting the terms of the contract and therefore taking the steps to improve their credit and debt standing, then we’ll extend the contract for another six months. We continue to do this until they have everything required to qualify for a traditional 30-year mortgage.”

The typical contract length has ranged from 12 to 24 months, with all six of the contract-for-deed homes having been purchased outright by homeowners who have successfully transitioned to traditional mortgages. (Six of the ten lease-to-purchase properties have been purchased outright by their owners as well). During the contract-for-deed period, the interest rate averages 6 percent. Buyers are incentivized to complete the program in order to qualify for the much lower 30-year interest rates that are available. The average home price so far is around $130,000—a price that reflects reductions made possible through private and government grants, which offset some of each home’s acquisition, rehabilitation, and financing costs. To be eligible for the program, participants must be first-time home buyers, complete Home Stretch classes (the same homeownership classes required by SHOP’s program), and have a household income of up to 80 percent of the area median household income. Furthermore, eligible participants must have been employed continuously over the previous 24 months.

For more on the MCASA Homes program, visit the MCASA Homes tab at www.modelcities.org.

An incredible carrot

Operated through a partnership between The City of Lakes Community Land Trust* (CLCLT) and Urban HomeWorks (UHW), the Project: Reclaim program made its first contract-for-deed transaction in 2009 and has since entered into 16 more. The home buyers in this initial phase of the program agreed to two-year contracts at 3.5 percent interest, with a $2,000 minimum down payment.

“This requires them to have some skin in the game,” says Jeff Washburne, CLCLT’s executive director.

CLCLT and UHW are acquiring and rehabbing 20 additional houses for the next phase of Project: Reclaim, with the same purchase conditions in place except that the interest rate will be higher, at 6 percent.

While Project: Reclaim’s homeownership goals and eligibility requirements are similar to those of the other two contract-for-deed programs in the Twin Cities, the program has a couple of features that set it apart: a financial incentive for home buyers who

Community Dividend: Bridge to Success encourages its homeowners to refinance to a traditional mortgage once their creditworthiness improves. How does the program increase the chances that home purchasers will eventually transition to a conventional or FHA loan?

Gary Beatty: We do this in a few ways. First, we require prospective buyers to attend standard home buyer education classes, called Home Stretch, that are sponsored by the Minnesota Homeownership Center [www.hocmn.org]. The classes teach people the ins and outs of owning a home, from issues related to credit to the full home-buying process. Second, we require people to meet with a financial counselor so they can gain a better understanding of their financial situation. We want home buyers to succeed and own their homes without any problems along the way, so during these meetings we also help prospective buyers establish a household budget that will put them on the path to a healthier relationship with their finances and repair their credit. Third, we meet about twice a year with the people who end up purchasing a home through us, to check in on their situation. Ultimately, when the time comes for them to get a loan from a bank, we expect that they'll have their credit repaired and their finances in order.

CD: Let's say during one of the check-ins you discover a problem with a homeowner's finances. What happens next?

GB: If we catch the problem early enough, we can modify their payment to match their current capacity until they can get back on their feet. That's not something we're *looking* to do, but we want people to stay in their homes, so we'll work with them. In this respect, we have more flexibility than a typical conventional mortgage company because we can react more quickly to a problem. To give you an example, a month and a half after one of our home buyers moved into her home, she needed to replace her car. When we had initially processed her home purchase and helped her develop a household budget, she had a $250 car payment. Instead of keeping to that budgeted amount, she bought a replacement car that required a $500 monthly payment, and then she ended up missing a few house payments to us. But when we sat down with her we were able to help her work out a revised budget and add her missed payments onto the end of her contract. She had to make some tough financial choices in order to keep her car and her house, but she did.

CD: In some circles, contracts for deed have a reputation for being problematic. Why is that?

To learn more

For more information about contract-for-deed arrangements, see the article "Risks and realities of the contract for deed" from the January 2009 issue of *Community Dividend,* available via the Publications & Papers tab at www.minneapolisfed.org.


Community Dividend

Risks and realities of the contract for deed

Community developers in Minnesota face the foreclosure crisis

An introduction to social enterprises

GB: Mostly, it's the balloon payment. There are many instances where the balloon payment comes due and the homeowner can't secure a loan. Poor credit is a big reason for that. Fortunately, our contracts with buyers are for ten years, so they have a lot of time to repair their credit scores. And if they continue to meet with our financial counselors and adhere to their budgets, their credit scores will almost certainly improve. Then they'll be better positioned to secure a mortgage from a financial institution to make their balloon payment. To that end, we work with a local organization to service our contracts—the Community Reinvestment Fund [www.crfusa.com]—and they report the payments to the different credit bureaus, which is the primary way our home buyers repair their credit.

CD: In regard to your contract terms, SHOP currently offers home buyers ten-year financing terms with a 7.5 percent interest rate. That's about double the current interest rates on conventional loans. Why is it so much higher?

GB: The issue is that these loans involve higher risk, and we have to set aside funds for loss reserves because we don't require mortgage insurance. This is what gives us the capacity to work with the buyer when they have financial issues. Also, the investors of our loan fund expect, rightly, to be paid back. But I should point out that even though the interest rate is high, the values of the homes are still really low, and that's where the affordability comes in. Houses that reflected 2006 prices would be too expensive, but the houses we're selling today are considerably less expensive. Furthermore—and this is critical—almost all of our buyers are paying less or the same for their mortgage than they were for their rent. People who buy from us typically end up paying less than 30 percent of their income on housing.

CD: There have been some calls to establish more laws governing contracts for deed, to make these arrangements more transparent and less prone to abuse. If more laws are put in place, what do you think they should entail?

GB: One of the biggest issues around contracts for deed is simply ignorance about what they are and how they work, so more and better information is needed. There should also be more disclosures to the buyer about the actual value of the property, if it has any underlying liens, and about the property's condition, done through a truth-in-housing report. And doing something to make sure contracts for deed get recorded at a registrar of deeds office is crucial. We close ours at a title company, so they're recorded right away, but some other contracts for deed never get recorded.

CD: Where do you see the Bridge to Success program heading over the next several years?

GB: Ideally, I'd like to see it evolve into a mortgage-type product that fills the void that was created by the loss of the subprime lending market. It would focus not just on lending people the funds they need to buy a house but also on helping them move back into the financial mainstream.

For more on the Bridge to Success program, visit www.shop-mortgage.org/financing/bridge-to-success. cd

successfully transition to a traditional mortgage and a "soft landing" for those who are unable to do so.

According to Washburne, in order to help defray the cost of the home, Project: Reclaim will provide a $30,000 grant to people who successfully complete their contracts and ultimately obtain a traditional mortgage.

"It's a pretty incredible carrot," he says, noting that one household so far has successfully transitioned to a standard mortgage. "If they've followed their contract, cleaned up their finances, and built up their credit scores, we can lop off a relatively large portion of the cost of their home."

Embedded in each Project: Reclaim contract is a "credit enhancement plan," which allows financial counselors from CLCLT and UHW to thoroughly monitor the financial condition of each program participant. The counselors meet once a month for this review process.

For those who are unable to work through their financial difficulties, even after a contract extension, CLCLT and UHW will help them transition back into a rental property. That situation has not occurred to date. In the event that it does, the transition will be made easier because part of UHW's programming outside of Project: Reclaim is helping low- to moderate-income people secure affordable housing, including rental.

"We're definitely not going to let people go homeless," says Washburne, explaining that the houses in Project: Reclaim are intended for ownership. "But for a lot of people, homeownership simply may not be a good fit at this time."

For more on Project: Reclaim, visit www.urbanhomeworks.org/housing/buy-a-home.

*Community land trusts are nonprofit organizations that seek to provide affordable housing opportunities for qualified home buyers. In a land trust arrangement, the homeowner owns the physical house while the land trust owns the land on which the house sits. For more information, see "Community land trusts strive for permanent housing affordability," *Community Dividend* Issue 3, 2007, available at www.minneapolisfed.org.

[1]"Contract for deed can be house of horror for buyers," January 14, 2013.

[2]Current funders include the Family Housing Fund, Minnesota Housing (the State of Minnesota's agency for promoting and advancing affordable housing), the cities of Minneapolis and St. Paul, Hennepin County, and NeighborWorks America. During the pilot phase of the program, University Bank, Anchor Bank, and the Family Housing Fund provided a line of credit that enabled SHOP to make 45 contracts for deed.

[3]Minnesota Housing is responsible for determining the level of need for stabilization.

[4]Area median household income as established by Minnesota Housing.

News and Notes

HUD launches strategy to preserve affordable housing units

The U.S. Department of Housing and Urban Development (HUD) has launched a strategy for preserving tens of thousands of units of public and other HUD-assisted housing at no cost to taxpayers. The Rental Assistance Demonstration (RAD) plan is designed to address an estimated $26 billion backlog of repairs that are needed to keep the nation's 1.2 million public housing units in safe and decent condition. The RAD plan will allow participating public housing authorities (PHAs) to convert their current assistance from HUD into long-term Section 8 contracts. The conversions will have two interrelated benefits: first, freeing the PHAs from antiquated rules that limited their ability to repair and renovate their properties; and second, positioning the PHAs to seek private financing to cover the costs of the repairs and renovation work.

For the initial phase of the RAD plan, HUD awarded 112 conversion commitments to 68 PHAs and also approved conversion requests from 11 private owners of affordable housing developments. One of the PHA awardees, Scott County Community Development Agency in Shakopee, Minn., is located in the Ninth Federal Reserve District. The initial round of RAD conversions is projected to preserve and enhance more than 13,000 units of affordable housing, generate more than $650 million in private capital, and create about 10,000 construction-related jobs.

Latest CFED scorecard shows persistently high rates of financial insecurity

Rates of personal financial insecurity continue to be alarmingly high in the United States, according to CFED's *2013 Assets & Opportunity Scorecard*. Last released in 2012, the scorecard is a data-based assessment of the financial security and economic circumstances of American households. CFED uses data from multiple sources, including the U.S. Census Bureau's American Community Survey and the Mortgage Bankers Association, to grade and rank all 50 states and the District of Columbia on 69 outcome measures grouped in five categories: Financial Assets and Income, Businesses and Jobs, Housing and Homeownership, Health Care, and Education.

Among its many findings, the 2013 scorecard reveals that for the second year in a row, nearly half (44 percent) of households in the U.S. lack a personal safety net to protect them from financial emergencies. Twenty-six percent of households are "net worth asset poor," which CFED defines as having debts that outweigh their assets, and 56 percent of households do not qualify for short-term credit at "prime" rates. The scorecard also shows huge discrepancies in assets and financial security by race. For example, the median net worth of households of color was $10,824, less than one-tenth of the $110,973 median net worth of white households.

The 2013 scorecard's findings and analyses are available at www.assetsandopportunity.org/scorecard, a web site featuring an interactive map that displays detailed state-by-state outcome measures. The site also offers a summary report of the 2013 scorecard results, titled *Living on the Edge: Financial Insecurity and Policies to Rebuild Prosperity in America,* and a tool that enables users to create customized reports and graphics from the scorecard findings.

CFED, formerly known as the Corporation for Enterprise Development, is a national nonprofit organization that promotes asset building and economic opportunity for low- and moderate-income people. Its 2013 scorecard is the sixth such assessment the organization has released since 2002.

Minneapolis Fed launches housing and mortgage data page

The Federal Reserve Bank of Minneapolis has launched Housing Market and Mortgage Conditions in the Ninth District, a web page that illustrates current trends in mortgage performance, mortgage originations, and home prices in the Ninth Federal Reserve District and nationwide. The page centers on graphs, maps, and synopses based on data from two major mortgage-tracking firms and features an archive of housing-related articles and research from the Minneapolis Fed. To explore the page, visit www.minneapolisfed.org/community_education/housing.

Payment agreement ceases majority of Independent Foreclosure Review cases

In January, all but 4 of the 27 mortgage servicers and affiliated companies subject to the Independent Foreclosure Review reached an agreement with the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency to pay more than $9.3 billion in cash payments and other assistance to help borrowers. As a result of this agreement, the participating servicers have ceased the Independent Foreclosure Review, which involved case-by-case reviews, and replaced it with a broader framework allowing eligible borrowers to receive compensation more quickly. For more on the Independent Foreclosure Review, including background information and a list of the servicers involved, visit www.federalreserve.gov/consumerinfo/independent-foreclosure-review.htm.

Calendar

"Scaling Up Microfinance" Webinars

Various dates, April–October

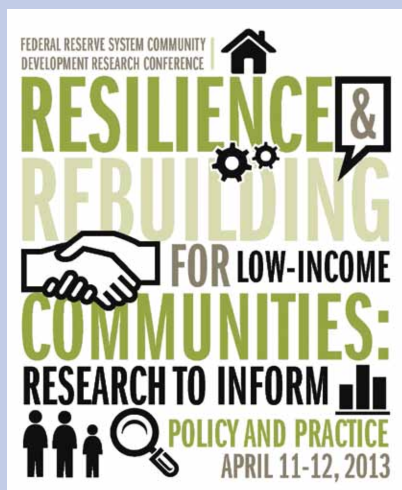
In this series of free technical-assistance webinars offered by the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund, CDFIs that specialize in microfinance will learn about best practices and tools they can use to scale their operations. The series is part of the CDFI Fund's ongoing Scaling Up Microfinance initiative, which is designed to help CDFIs that work in the microfinance field decrease costs, build human capital, and improve their business models. Sessions are free and open to the public, but advance registration is required. **www.cdfifund.gov/what_we_do/ScalingUpMicrofinance.asp**

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, 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. **www.frbatlanta.org/commdev**



8th Annual Underbanked Financial Services Forum: Fresh Ideas for an Emerging Market

June 5–7, Miami

Join with bank and credit union executives, technology entrepreneurs, retailers, investors, regulators, nonprofit providers, and consumer advocates to discuss the market opportunities in serving the financially underserved and to advance innovative efforts to the next level. Sponsored by *American Banker* and the Center for Financial Services Innovation. **www.cfsinnovation.com**