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Community Dividend

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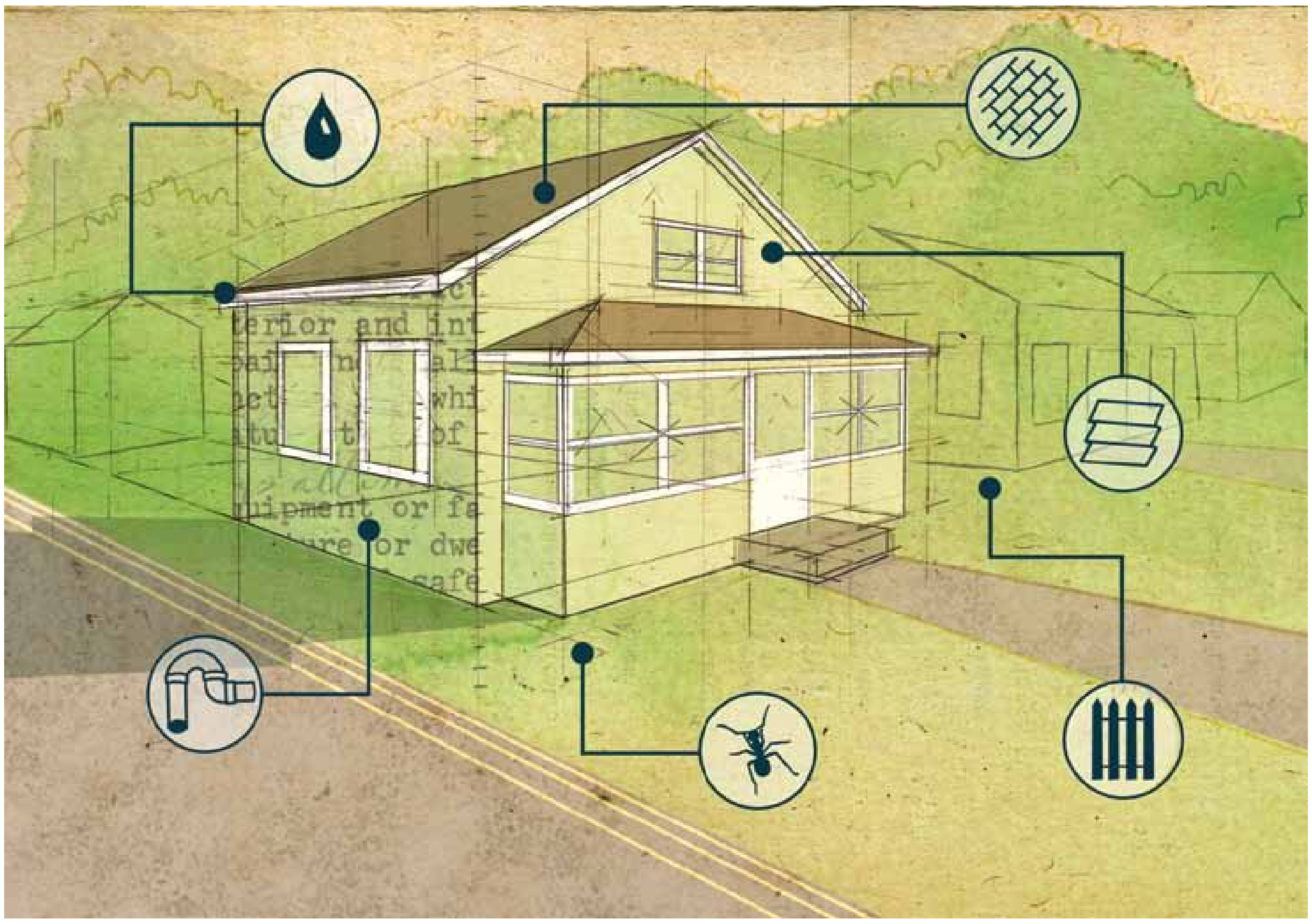
Working with finite resources, Twin Cities rental housing inspectors reward good, target bad



ILLUSTRATIONS BY ERIN DUNN

By Jacob Wascalus

In 2013, housing inspectors from the City of Minneapolis Department of Regulatory Services walked through nearly 1,900 one- to three-unit rental dwellings to conduct a full, 150-point safety inspection.[1] Inside each building, they moved from room to room, testing smoke and carbon monoxide detectors, checking the operability of appliances, and making sure windows weren't painted shut. Outside, they checked the integrity of the foundation; the weather-tightness of the siding; and the condition of the chimney, roof, gutters, and downspouts. At the conclusion of each walk-through, each inspector either issued a list of repairs the building's owner needed to make in order to bring the dwelling up to code, or gave the building the property equivalent of a clean bill of health. Anywhere from one to eight years later, this inspection process will repeat.

Ten years ago, the supply of single-family rental homes in Minneapolis—as well as that of two- and three-unit rental properties—might not have warranted any particular attention. But one side effect of the housing market collapse of the last decade was a surge in investors buying up foreclosed single-family homes and converting them to rental dwellings. Minneapolis housing inspectors now face the daunting task of ensuring that the fast-growing inventory of converted rental properties is made up of safe, code-compliant places to live. Just to the east of Minneapolis, St. Paul, Minn., which has also experienced a spike in rental properties,[2] confronts a similar housing-regulation scenario.

"We're trying to find the right balance

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Using housing regulation as a community-engagement tool:

A conversation with Nuria Rivera-Vandermyde of the City of Minneapolis

By Jacob Wascalus

To a casual observer, a housing inspection might seem like little more than a routine regulatory exercise. But to Nuria Rivera-Vandermyde, it's an opportunity to build a stronger community. Rivera-Vandermyde serves as director of the City of Minneapolis Regulatory Services Department, which oversees the safety and condition of the city's housing stock—including more than 85,000 rental housing units that must be inspected on a regular schedule. Since taking the helm of Regulatory Services in May 2013, she has launched new programs and initiatives aimed at shifting the department's focus from, in her view, collecting fines and pursuing those who were not complying with housing codes to establishing meaningful and sustainable partnerships with communities.

An attorney by training, Rivera-Vandermyde has nearly two decades of experience in organizational management, administration, regulatory compliance, public-private partnership building, and statistical analyses. In her wide-ranging career, she has held senior positions with the Puerto Rico Departments of Justice and Corrections, served as president and CEO of a not-for-profit corporation that delivered health care services to prison populations, and consulted on legal and operational matters.

Community Dividend recently spoke with Rivera-Vandermyde about her directorship of Regulatory Services in Minneapolis and the role that her department plays in neighborhood stability.

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COMMUNITY DEVELOPMENT STAFF

Dorothy Bridges
Senior Vice President, 612-204-5462,
dorothy.bridges@mpls.frb.org

Jacqueline G. King
Vice President, 612-204-5470,
jacqueline.king@mpls.frb.org

Richard M. Todd
Vice President, 612-204-5864,
dick.todd@mpls.frb.org

Michael Grover
Assistant Vice President and Community Affairs Officer, 612-204-5172,
michael.grover@mpls.frb.org

Jacqueline Gausvik
Business Analyst, 612-204-5869,
jacqueline.gausvik@mpls.frb.org

Sandy Gerber
Senior Project Manager, 612-204-5166,
sandra.gerber@mpls.frb.org

Michou Kokodoko
Senior Project Manager, 612-204-5064,
michou.kokodoko@mpls.frb.org

Ela Rausch
Project Manager, 612-204-6785,
ela.rausch@mpls.frb.org

Jacob Wascalus
Project Manager, 612-204-6475,
jacob.wascalus@mpls.frb.org

Michael Williams
Financial Analyst, 612-204-5572,
michael.williams@mpls.frb.org

Paula Woessner
Publications Editor, 612-204-5179,
paula.woessner@mpls.frb.org

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Editor: **Paula Woessner**
Contributors: **Michael Grover, Jacob Wascalus**
Graphic Designers: **John Biasi, Lori Korte, Mark Shafer**

For address changes or additions, e-mail mpls.communitydevelopment@mpls.frb.org.

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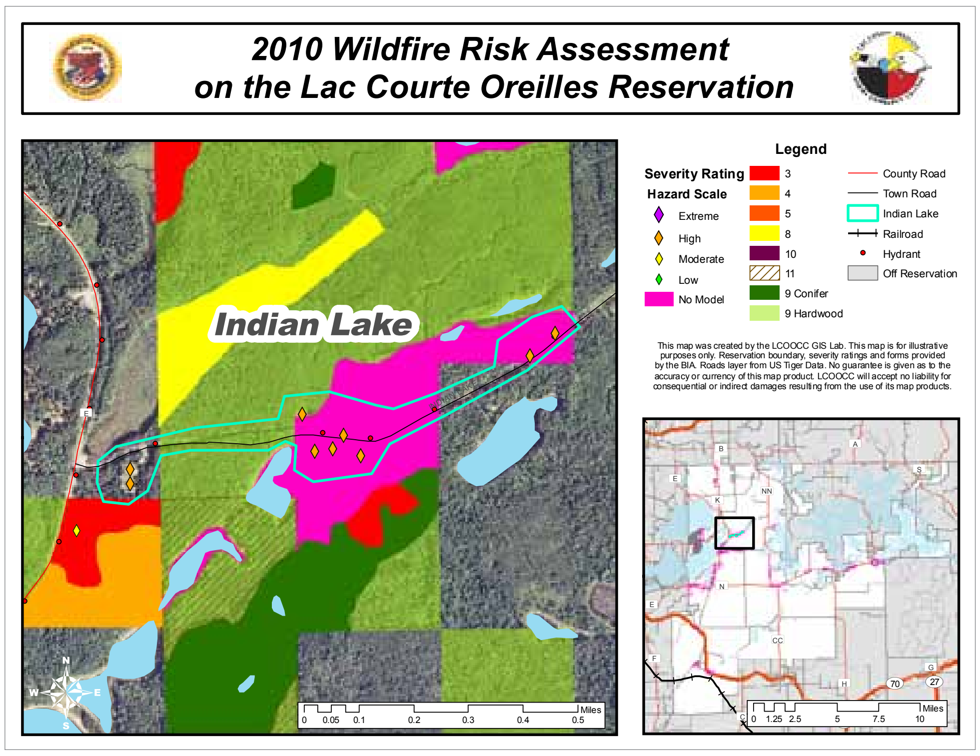

Using GIS (geographic information system) technology, students at Lac Courte Oreilles Ojibwa Community College conducted a fire-risk assessment for the 77,000-acre Lac Courte Oreilles Indian Reservation.

> "One of our primary uses of GIS is mapping out land ownership. We're using this technology to help us to better understand the conditions on our reservation."
>
> *—Len Fralick, a GIS specialist and roads planner for the Lac du Flambeau tribe*

GIS tech helps tribes tackle planning and projects

By Jacob Wascalus

The dozens of lakes and streams on the Lac du Flambeau Indian Reservation in northern Wisconsin form a complex network of aquatic assets that members of the tribe's natural resources department work diligently to protect. One way of safeguarding the tribe's water resources is to identify catchment basins that feed rainwater into the system. By ensuring that identified basins are adequately covered in vegetation, which filters pollutants found in runoff, the tribe can help protect the overall health of its watersheds.

The task is made easier through the use of geographic information system (GIS) technology. A GIS is a computer system that enables users to visualize and analyze spatial information. In other words, it allows people to produce data-rich maps that can be used to make informed decisions. Len Fralick, a GIS specialist and roads planner for the Lac du Flambeau tribe, explains that to understand where catchment basins are, the natural resources department creates a map that includes not just lakes, streams, and vegetation but also the elevation and slope of the terrain. Doing this helps the tribe determine the direction of water flow during and after a rain event and, therefore, where catchment basins lie.

"GIS is critical to our efforts here," he says. "Just about every program we have has a need or purpose for mapping."

Managing natural resources is just one application of GIS technology. Other common uses include community development and planning, transportation and network analyses, public safety planning, cultural and historic preservation—essentially, anything that can benefit from the tying of data, such as demographic or environmental information, to a point or area on a map. For American Indian tribes, interest in using this technology comes at a time when they face increasingly complicated land-management decisions, including those prompted by a recently implemented federal program that enables tribes to buy back and consolidate privately held reservation land.[1] Once acquired, the land can be used for commercial development, housing, tourism, or whatever long-term purpose a tribe intends. With so much at stake—economic development, cultural preservation, community planning, etc.—the need for an effective land-management tool, such as a GIS, is clear.

"One of our primary uses of GIS is mapping out land ownership," says Fralick. "We're using this technology to help us to better understand the conditions on our reservation. Other tribes can do this, too."

A spectrum of sophistication

Although no definitive figure exists on the number of tribes that use GIS, Garet Couch, president of the National Tribal Geographic Information Support Center, a 501(c)(3) nonprofit organization with an objective to provide assistance to Native American tribal governments and Native American organizations regarding geographic information technology, believes that nearly 45 percent of the 566 federally recognized tribes use the technology. However, he notes that the sophistication of GIS offices from tribe to tribe "runs the spectrum."

"Some tribes have multiple, full-time staff who perform wide-ranging GIS services, while others have just a part-time staff person who makes relatively simple maps," Couch says.

Couch would like to see tribes establish the former type of GIS department—self-sufficient, comprehensive shops that support tribes in many of their land-management and community development efforts—but he identifies funding and appropriate staffing as obstacles. To fund GIS activities, tribes often rely on contracting and grants, neither of which is a reliable source over time. And to staff GIS departments, tribes need employees who not only have adequate technical expertise but also institutional knowledge built up over years of work.

"Too often, tribes will lose the only person they have working in GIS," says Couch, "and that person leaves with all of their contacts and knowledge. When tribes eventually do hire a new GIS technician, it's almost like they have to build their department from scratch."

Couch suggests that, if funding permits, tribes hire a community member to shadow the GIS work being done. He or she will then be able to orient new GIS hires to past projects and current administrative practices. Ultimately, he says, tribal leaders need to be aware of the power of GIS technology and devote the resources to deploying it.

Comprehensive curricula

As of summer 2014, about 20 of the 37 native colleges and universities across the country offered coursework in GIS.[2] While the major-

PHOTO COURTESY OF NATIONAL TRIBAL GEOGRAPHIC INFORMATION SUPPORT CENTER

Participants at the National Tribal Geographic Information Support Center's 2012 National Tribal GIS Conference use Global Positioning System devices for field data collection.

ity of those classes limit the depth of study to introductory material, several colleges have established comprehensive curricula that encompass a range of GIS concepts and methods, from basic to advanced.

One such school is Lac Courte Oreilles Ojibwa Community College (LCOOCC) near Hayward, Wis. In 2010, it began offering a one-year certificate program in geospatial technology after the demand for its introductory GIS class, which it had been offering since 1996, grew from about one or two students a year to more than a dozen.

A recent project LCOOCC's GIS students worked on was a wildland fire-risk assessment of the nearly 400 homes on the Lac Courte Oreilles Indian Reservation, an analysis that the Fire and Fuels Department of the Great Lakes Agency of the Bureau of Indian Affairs (BIA) had contracted with the school to conduct. Over the course of a year, students analyzed aerial imagery, vegetative land cover, fire hydrant locations, and home locations on the heavily forested, 77,000-acre reservation and then presented their results to both the BIA and the tribe's volunteer fire department.

"In the end, this project benefited many parties: students, government, volunteer fire fighters, and the reservation in general," says Amber Marlow, LCOOCC extension director, who has taught GIS. She notes that funding for the LCOOCC's GIS lab and coursework, though unsteady, often comes from contracts with non-tribal government agencies and tribes located near the school. "These are the types of projects that resonate with people learning about GIS."

Offering tribal members courses in GIS isn't limited to tribal colleges, however. The BIA's Office of Trust Services Geospatial Support (OTSGS), a Colorado-based department of the federal government that helps tribes learn about and deploy GIS technology, offers free in-person and online courses to tribal and BIA employees who use GIS software as part of their jobs. According to the department's program manager, Wyeth "Chad" Wallace, the OTSGS has been offering classes and training for longer than two decades. Moreover, the OTSGS makes available to all federally recognized tribes a suite of GIS products and extensions at no cost. To date, approximately 245 federally recognized tribes have taken advantage of this free service, and more than 4,000 tribal workers have registered with the OTSGS as users of GIS.[3]

"We're seeing a lot of interest from tribes that want to use GIS as a tool to help manage their lands," says Wallace, "but we'd like to see even more."

An everyday tool

For the many tribes that have already embraced GIS, practical applications for the technology continue to multiply.

On the Lac du Flambeau Reservation, Len Fralick recently completed a map to help the tribe's council visualize how a proposed youth center would look amid the existing buildings in the town center of the reservation. Initially, council members wanted the building to be on the small side, but now they'd like to add a few features that would require more space.

"We can use a map to help the council understand the increased space that is required for developing a larger youth center, and GIS is the tool we are using to do that," he says. "It's essential to our work. We basically use it every day." cd

[1] For more on this, see "Maximizing the tribal land buy-back program: How priority lists can help tribes influence what's purchased," in the July 2014 issue of *Community Dividend,* available via the Publications & Papers tab at minneapolisfed.org.
[2] Based on a review of the course catalogs of the 37 institutions. For a list of tribal colleges and universities, visit the web site of the American Indian Higher Education Consortium at aihec.org.
[3] For more on the office's services, visit bia.gov/WhatWeDo/ServiceOverview/Geospatial.

Is subprime lending making a comeback?

By Michael Grover

Has lending to riskier borrowers made a comeback? Earlier this year, a number of news reports suggested that there is indeed a resurgence of subprime lending—that is, loans made or credit offered to borrowers with lower credit scores—following a pull-back during the Great Recession. According to these accounts, lenders had been relaxing their lending standards, particularly in mortgage lending, in response to sustained low interest rates and improvements in the economy and the housing market. Lenders weren't only returning to riskier home mortgage lending, the accounts indicated, but to other lines of consumer credit, too, including bank credit cards and auto loans.

An analysis of the comeback question, based on data that track the actual borrowing behavior of consumers through their credit files, tells a different story, though. Overall, the data reveal no evidence of a subprime lending resurgence for mortgages and bank credit cards. But the data do reveal a recent increase in the percent of subprime borrowers holding auto debt. However, the increase in auto lending is broad-based and not just occurring among subprime borrowers, who make up a small share of the overall auto loan market.

Analyzing "subprime"

The word "subprime" generally refers to the heightened risk that a loan may enter into default, based in large part on a borrower's credit characteristics, such as credit history and credit score. Because of the heightened credit risk, subprime loans generally have higher interest rates than conventional, or "prime," loans. The analysis discussed here, which was performed by the Federal Reserve Bank of Minneapolis, identifies riskier, or subprime, borrowers using consumer credit scores as estimates of creditworthiness; it categorizes a consumer as subprime if his or her credit score is below 660. The credit scores and other data used are drawn from a dataset called the Federal Reserve Bank of New York/Equifax Consumer Credit Panel, which is a nationally representative sample of consumer credit information consisting of 5 percent of U.S. residents with a credit report that includes a Social Security Number.

The analysis focused on the percentage of prime and subprime borrowers with mortgage, bank credit card, and auto loan debt in the U.S. as a whole and in the largest population center in the Federal Reserve's Ninth District—the Minneapolis-St. Paul metropolitan area—from 2000 to mid-2014. It is important to note that the share of consumers with subprime credit scores remained mostly unchanged over that period, dropping only a little since 2013. This consistency in the share of subprime borrowers over the years allows for straightforward comparisons of debt usage at different points in time. As of the second quarter of 2014, almost one-quarter of consumers in the Minneapolis-St. Paul

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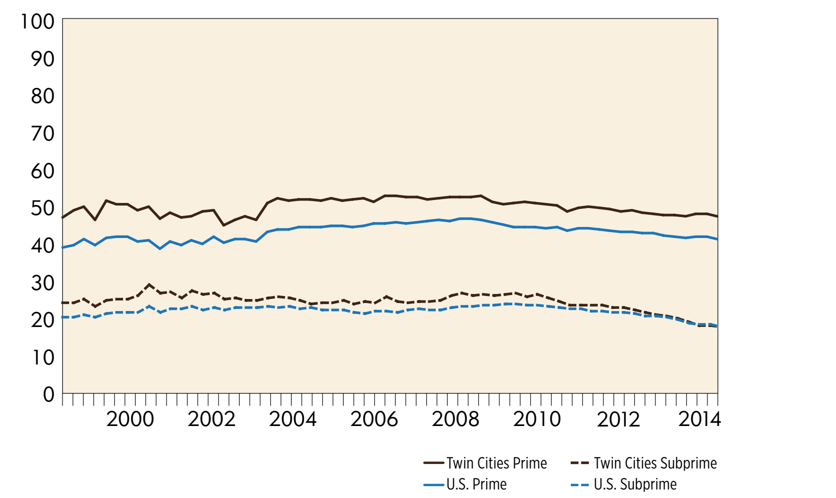
Figure 1

Mortgage Debt Usage by Prime and Subprime Borrowers for the Twin Cities and the U.S.



Source: Federal Reserve Bank of Minneapolis calculations based on Federal Reserve Bank of New York/Equifax Consumer Credit Panel data.

Twin Cities rental housing inspections

Continued from page 1

between being responsive to the concerns of both renters and landlords," says Nuria Rivera-Vandermyde, director of regulatory services in Minneapolis. "We want to ensure healthy and safe living environments for tenants, but we also don't want to subject the owners of the city's rental properties to overly burdensome code-compliance orders. And we're trying to do this in a resource environment that is pretty tight."

Both the City of Minneapolis Department of Regulatory Services (DRS) and its City of St. Paul counterpart, the Department of Safety and Inspection (DSI), face growing rosters of rental properties as well as constrained operating budgets. In recent years, in order to allocate their limited resources effectively, both have shifted to "risk-focused" strategies whereby properties with past code-compliance problems are inspected more frequently than others. *Community Dividend* reached out to both departments and to individuals representing tenant and property-owner perspectives to better understand how the current regulatory procedures are working to ensure a landscape of safe, quality rental properties—a type of housing that many low- and moderate-income households in the Twin Cities call home.[3]

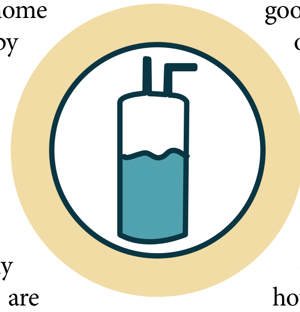
Rentals grow, budgets stagnate, workloads increase

The constraints that the code-compliance departments in Minneapolis and St. Paul are operating under are evident in some recent numbers. Although Minneapolis has been able to grow its inspection staff by a half-dozen personnel over the past five years, from 30 in 2009 to 36 in 2014, the total number of properties the department is responsible for inspecting has risen by more than 25 percent, from 19,151 in 2009 to 24,286 in 2014.[4] That's an increase of 36 properties per inspector. The DRS budget shrank by $2.9 million over the same time frame, from $23.5 million in 2009 down to $20.6 million in 2014. A similar situation has played out in St. Paul. The DSI, which inspects single-family homes, duplexes, and multi-unit apartment buildings, grew its residential inspection staff from 9 employees in 2007 to 14 in 2014. But the number of properties the department had to inspect grew by 62 percent, from 10,115 in 2007 to 16,391 in 2014, or an increase of 47 properties per inspector. Meanwhile, the budget for the DSI grew by a mere $500,000 over the same time frame, from $17.6 million in 2009 to $18.1 million in 2014.

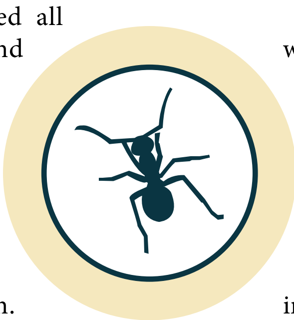
Ricardo Cervantes, the director of St. Paul's DSI, sums up his department's situation: "We're absolutely dealing with resource constraints."

Using carrots and sticks

In Minneapolis, an owner of a residential dwelling with three or fewer units who wishes to let the property must first obtain a rental license, at a cost of $69 a year. If the owner of a residential dwelling that fits this classification wishes to convert the property to a rental—that is to say, the home was previously occupied by the owner—he or she must pay a $1,000 conversion fee; however, $250 of the fee will be refunded if the owner takes a city-approved property management course. All newly converted rental properties are subject to inspection by the city's regulatory services department for compliance with a range of codes that ensure a safe living space, including codes pertaining to fire protection and structural integrity.



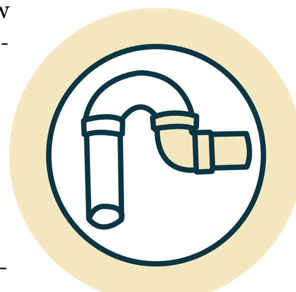
Prior to 2012, DRS inspected rental properties every ten years—an inflexible scheduling scheme that, according to Rivera-Vandermyde, lumped all landlords, good and bad, into one category. Under the new system the city implemented in 2012, rental properties are slotted into a three-tiered housing inspection program. Rental dwellings that complete an inspection with no or few easily fixable code violations are considered "Tier 1" properties and are scheduled for a new inspection six to eight years later. Rental dwellings with several code violations—but ones that inspectors deem fairly minor and relatively easy to fix—are considered "Tier 2" properties and are scheduled for a new inspection three to five years later, and those with many code violations and that are a "drain on public resources" are considered "Tier 3" properties and are scheduled for a new inspection annually. These are homes that have been visited multiple times throughout the year by DRS staff and police and fire departments. Currently, 66 percent of Minneapolis's rental properties are classified as Tier 1, 30 percent are Tier 2, and 4 percent are Tier 3.

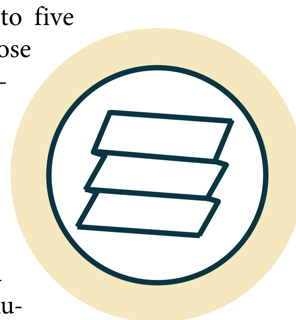


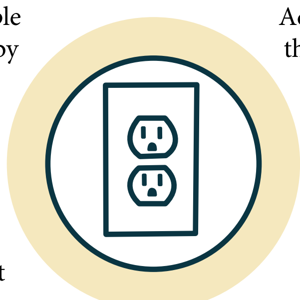
"Ultimately, we're just enforcing the code that's on the books," says Rivera-Vandermyde, explaining that the department's inspectors also make annual sweeps of different sections of the city to check on the exteriors of rental properties. "But our new system rewards the good landlords and gets tough on the bad ones."

In June 2014, the department announced that it will begin ramping up its enforcement activities to ensure that all rental properties are complying with minimum licensing standards. To determine which properties have failed to meet the standards, housing inspectors will conduct quarterly reviews of the previous two years' rental licensing histories for each property in the city to see which properties meet any of six criteria that would indicate a possible failure to meet minimum licensing standards. For those properties that meet any of the criteria, such as a recurring history of unpermitted repair work or a history of "conduct-on-premises" violations (e.g., noise violations), the department will invite the owners—so far, 102 of them—to meet with regulatory services staff to jointly establish a property improvement plan. In some cases, the city may choose to deny the rental owner a new rental license if he or she cannot satisfactorily establish or complete the remediation plan.

"We're looking at ways we can both incentivize folks to better comply and to track those that are chronic offenders so that the 'carrot and stick' approach can be used to increase compliance all around," says Rivera-Vandermyde. "We hope to be better able to use our existing resources to really home in and strategically address those that simply fail to live up to our housing standards."







Rewarding the good, limiting the bad

While the City of St. Paul doesn't require an official rental license, it does call on owners of one- and two-unit non-owner-occupied residences who wish to let their properties to register them with the city. At the point of registration, owners must also obtain a provisional Fire Certificate of Occupancy (FCO) through the DSI; this issuance costs $50.

According to Ricardo Cervantes, these dwellings are then required to pass a two-pronged inspection that ensures compliance with both the city's fire safety code and its housing maintenance code.

"We're checking over these homes to make sure they're safe places to live," he says. "Our primary intentions are to help ensure that people don't lose their lives and to diminish the chances of injury."

Once a provisional FCO is issued, the home is entered into the city's three-tiered inspection program, which was implemented in 2007. Like the system in Minneapolis, the St. Paul version bases future inspection frequency on the outcome of a home's current inspection. Twelve months after the issuance of the provisional FCO, rental dwellings receive an initial inspection to determine whether a full FCO will be issued. They are then assigned a grade of A, B, or C, depending on whether they have few or no code infractions, moderate infractions, or a preponderance of infractions, respectively. "A" properties are scheduled for a new inspection five years later, "B" properties are inspected again after three years, and "C" properties are inspected again after one year.

To ensure that owners address code violations, the city has the power to suspend the FCO, meaning that the owners will not be able to legally let their property, or it can revoke the certificate altogether. In the worst-case scenarios, the city reserves the right to condemn a property.

"But we're very mindful and careful about how we use that tool," Cervantes says. "While it's our most severe enforcement strategy, we don't want to create more problems for tenants than necessary."

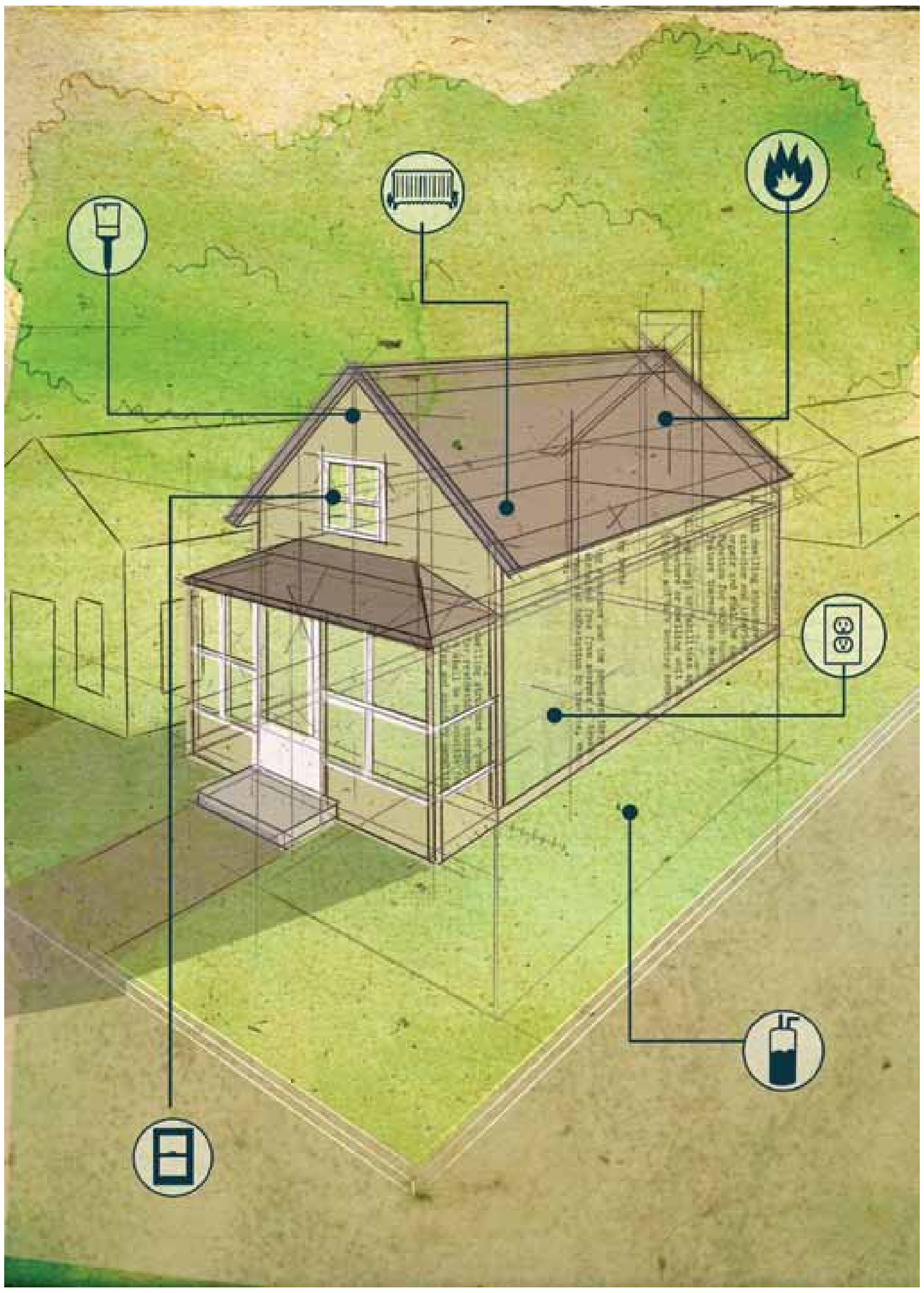
Cervantes insists that his department is flexible with landlords if there isn't a fire and safety issue, particularly when it comes to the duration of time it requires landlords to make repairs and who does the repair work.

"The way that we enforce our rules is reasonable," he says. "You can often get people to do the right thing if you help them understand why it's important. It's about making people understand why these codes exist and how they might benefit from them."

Tenant and landlord perspectives

Tenants, the most direct beneficiaries of rental housing standards and safety codes, can do their part by reporting problems that landlords and property managers have failed to address. The DRS and DSI take complaints about code violations from tenants and other members of the public, as do some other housing-related entities that serve the Twin Cities. According to Mike Vraa, a managing attorney at HOMELine, a tenant advocacy organization in Minnesota, the most common types of problems his organization hears about (from residents of both single-family and multi-unit rental dwellings across the state) involve appliances not working, inadequate heat, infestations (especially of bedbugs), and water damage. He indicates that more than a quarter of the repair-based calls his organization received last year mentioned the word "mold" and featured leaks and water intrusions.

However, Vraa points out that while many of these complaints may violate codes in Minneapolis and St. Paul, the state lacks a



Top ten housing code violations in Minneapolis

What kinds of code violations do rental housing inspectors most frequently encounter? This list from the City of Minneapolis spells them out.

1. Overgrown grass/weeds in yard
2. Rubbish in yard/property
3. Lack of required carbon monoxide alarms
4. Overgrown or overhanging vegetation in alley
5. Plumbing repairs required
6. Inoperable vehicle on premises
7. Wall repairs required
8. Expired, insufficient, or lack of licensing
9. Brush and branches of less than four inches in diameter in yard
10. Lack of required smoke detectors

"habitability code" that explicitly spells out a lot of standards.

"So cities rely on their own codes," he says, "and inspectors enforce these specific codes. Something that may be up to code in St. Paul might not be up to code in Minneapolis."

While the codes themselves don't necessarily trouble Cecil Smith, managing broker and principal with Minneapolis-based property management firm Cornerstone Property Professionals LLC, the process by which the codes are enforced and rental homes are inspected, at least in Minneapolis, gives him concern. He argues for more clarity about how and according to what criteria rental properties are assigned a tier grade. As it is now, he says, owners of rental properties only learn of their ratings by determining them from the dates on which their next inspections are scheduled.

"If it's next year, I'm Tier 3; if it's in six years, I'm Tier 1," he says, adding that writing the three-tiered system into a city ordinance, rather than following it as a department policy as is currently the case in Minneapolis, would strengthen the process. "All regulation works better when it's transparent."

Moreover, Smith believes that the market will drive rental property owners to regulatory compliance better than any force of inspection.

"If the public knows what each rental property is graded—Tier 1, 2, or 3—then they might choose where to live based on these scores," he says. "This would put pressure on owners of Tier 3 properties, for instance, to improve their buildings."

This type of information may eventually be available to the public. Since her leadership of the DRS began last year, Rivera-Vandermyde has championed the release of the data that her department collects. In fact, she is working with the city's information technology leaders to develop an "open data" portal to do just that. But in the meantime, her focus is on making Minneapolis's residential rentals safe for habitation.

"It's really important to me to make sure that those who take on the responsibility of leasing to others—of providing others with housing—do so responsibly and in a way that ensures safe and livable conditions overall," she says. "We want to create environments of success." cd

[1] In 2013, the Department of Regulatory Services also conducted full inspections of 846 multi-unit apartment buildings with four or more dwellings, bringing the total number of buildings that received a full inspection to 2,764. That total is part of the more than 98,000 inspections of various types that the city performed on both owner-occupied and rental buildings in 2013.

[2] The City of St. Paul refers to these properties as "non-owner-occupied dwellings." To avoid confusion throughout this article, these dwellings are called "rental" properties.

[3] According to the U.S. Census Bureau's 2012 American Community Survey 1-Year Estimates, 40 percent of the households that rented in Minneapolis earned less than the federal poverty level over the previous 12 months; in St. Paul, the figure stood at 34 percent.

[4] One reason for the increase in properties under its purview was the department's reabsorption of multi-unit (i.e., four or more unit) residential rental buildings, the inspections of which had been conducted by the Minneapolis Fire Department for several years.

[5] In the same year that the three-tiered inspection program was launched, Harvard University's Ash Center for Democratic Governance and Innovation recognized it with a Bright Idea award. For more information about this designation, visit ash.harvard.edu/Home/Programs/Innovations-in-Government/Awards/Bright-Ideas.

Owner-Occupied Housing Units vs. Renter-Occupied Housing Units, 2006 and 2012*

	National			Minneapolis			St. Paul		
	2006	2012	% change	2006	2012	% change	2006	2012	% change
Owner-occupied	75,086,485	74,119,256	-1	84,156	80,029	-5	63,756	56,071	-12
Renter-occupied	36,530,917	41,850,284	15	71,490	85,825	20	44,328	55,846	26

Source: U.S. Census Bureau American Community Survey 1-Year Estimates, 2006 and 2012.
*The figures listed here reflect the total number of *units* contained in all rental properties, from single-family homes to multi-unit dwellings, and are thus larger than the total numbers of *properties* inspected.

CommunityDividend

A conversation with Nuria Rivera-Vandermyde of the City of Minneapolis

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Nuria Rivera-Vandermyde

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Community Dividend: Let's start with your department's name: "Regulatory Services" could mean lots of different things, depending on the context. What exactly do you and your colleagues do?

Nuria Rivera-Vandermyde: In general, much of what Regulatory Services does revolves around issues of livability and public safety. More specifically, we're in charge of building inspections, traffic control, and animal control. In our building-inspections role, we conduct visual or physical inspections of nearly all residential and commercial buildings in the city, including thorough inspections of the interiors and exteriors of the city's rental housing stock. For these assets, we're essentially helping preserve the actual physical structures—the homes themselves—and we're helping protect the tenants in those homes. We do this by regularly inspecting the properties to ensure that they comply with city codes regarding safety, security, and habitability.

With traffic control, we manage the flow of traffic around large construction projects and major events, and we oversee and enforce parking meters. We're also charged with animal care and control, including protecting residents from dangerous animals, such as violent dogs, and protecting animal welfare by looking out for hoarding or animal cruelty cases.

CD: On the housing inspections side, what role does the department play in creating safer, healthier neighborhoods?

NRV: We play a critical role. There are few departments in the city that can effectively stabilize—or destabilize—neighborhoods like Regulatory Services. For instance, if we're not careful in how we pursue our policies, we can cause evictions, which often punish tenants for the actions of a landlord. Or, we can cause landlords to screen tenants too strictly, which effectively restricts affordable housing options for some of our city's residents. On the flip side, if we don't do enough proactive inspections and complaint-based inspections, then we allow some tenants to fall prey to landlords who are not doing appropriate or adequate jobs of managing their properties.

The effects of our work with rental properties extend to owner-occupied homes as well. Rental housing whose tenants are a drain on public resources—who have multiple police calls to the property, for example—or that is in disrepair and looks unkempt on the outside may negatively affect market and property values on the owner-occupied homes that are nearby. These types of rental properties can destabilize a neighborhood. So our inspection and enforcement work really impacts a neighborhood's housing environment. At the end of the day, housing that is in good quality should lead to a more stable environment. That can lead to more business investment in the area, which can lead to a stronger housing market. We really are positioned to be gatekeepers of neighborhood stability.

CD: What tools does your department have to help accomplish that?

NRV: People often talk about the "carrot" and the "stick," and I think we have tools that fit into both categories. We have some tools that can help landlords if they're doing the right thing and showing good faith and working with the city. Or, there's a variety of tools that allow us to punitively engage landlords to do the right thing. We're striving to employ all our tools with a balance that will ensure the greatest success.

With our "stick" tools, we can assess fines on landlords who are not code-compliant or who break other ordinances or laws, or we can schedule inspections more frequently. In our new tier system, the frequency of inspections reflects the quality and maintenance of the rental property. For instance, if you're a landlord who owns rental property with a lot of problems, you'll be slotted into our Tier 3 and we'll be out at your property every 12 to 18 months. [For more on the city's tier-based inspections system, see the accompanying article that starts on page 1.] We can also issue what's called a "good cause" letter if a landlord fails to meet minimum rental licensing standards. That will put the property owner at risk for revocation of his or her rental license at that property. If a landlord faces a second revocation action for failing to meet our standards, we have the authority to revoke all of that landlord's Minneapolis-based property licenses for up to five years.

On the other hand, we have "carrot" measures that incentivize landlords. While some landlords get slotted into Tier 3 and therefore have their properties inspected often, landlords whose properties don't have any code infractions have inspections every eight years. That's a huge incentive for an owner to take care of his or her property. Moreover, if someone plans to convert a previously owner-occupied home into a rental, for which we assess a $1,000 fee, we'll knock off $250 if he or she takes a city-endorsed course on good property management. That's also a huge incentive.

If you own a home that's on the city's official Vacant Building Registration—which carries a nearly $7,000 annual fee—but you have plans to restore the home, you can work out a restoration agreement with us that outlines a credible timeline and financing for your restoration plan. Then we can waive some or all of your fees to give you additional time to complete your rehab.* Basically, if we see that there's a good faith effort on the part of a landlord, we can waive fines, extend deadlines, and really try to figure out a way forward.

CD: Are you looking at any new ways to encourage positive landlord behavior?

NRV: We are looking into adjusting our rental license fee structure to reflect the tier system, so that good landlords whose properties we inspect less frequently pay less for a rental license than landlords of problem properties. It hasn't been approved yet, but we're looking into ways to make that change. We're also looking at being able to show the actual tier rating on each particular rental license, but that's something that will have to wait until we implement a new land-management system the city is adopting.

CD: Due to the nature of its work, your department collects a lot of data on property conditions and other community indicators. How are you using the data?

NRV: To me, data is a narrative. It's a story. And the story tells us if we're doing our job right or if we could do it better. For example, we're examining data around snow emergencies from the winter of 2013–2014. In a snow emergency, the city tows away any vehicles that are parked on snowplow routes. We noticed that during last winter's snow emergencies, we had an inordinate amount of parking violation citations in North Minneapolis. This is an area where a large portion of the residents are low-income and can ill afford the fee to release their vehicles from the city's impound lot. We asked ourselves, why aren't we reaching these residents? To answer this question, we're looking at even more data and information: How many of these residents live in places with garages? Do people here have access to the Internet, and can they access messages about snow emergencies that go out from the city? How many residents in this area rely on public transportation rather than a car? So we're really examining our findings to see if we need to alter our approach in how we issue notices or if there are any language barriers that we can overcome. Ultimately, it's really about interpreting the data and information and finding the story and seeing how we can adjust our procedures to serve the community better.

CD: How do you think the city's current approach to regulatory services differs from past approaches?

NRV: In the past, I think there was an emphasis on fining and pursuing landlords whose properties weren't in compliance with city codes. That's something that we still need to do, but we should also emphasize trying to actively help Minneapolis residents. To that end, one thing we recently created was the Homeowner Navigation Program. Think of an elderly woman who's living by herself and gets an order to clean up or fix her roof gutters. In many cases, she's not going to be able to do that. Is having an inspector repeatedly visit her property and fine her the best approach? No. With this program, we can stop that type of interaction and instead put the homeowner in touch with a "navigator" who will help her access different resources and find a solution to her problem. For instance, we can tap into a nonprofit partner, or even a neighbor, who might be able to do the work. This way we're helping her fix the problem with her property rather than just fining her until she complies. Right now, this program is just for owner-occupants, but our hope is to expand it to landlords as well.

The reality is that Regulatory Services can't do everything we'd like it to do. We have finite resources and limited staff, and there are a lot of homes in the city to monitor. So how do we increase the effectiveness of our work and demonstrate to neighborhood and community organizations that we're all in this together? One way is by listening to and learning from the residents themselves, so I've placed a big emphasis on community engagement. We've been going out and talking to a lot of community organizations to learn from them. We're being more open and transparent. And we're collaborating with them. Ultimately, I think that our openness and willingness to work with community groups is going to help us advance our goal of making neighborhoods safer and healthier.

CD: What's an example of how Regulatory Services has worked in partnership with community groups?

NRV: We've had some neighborhood organizations talk to us about language barriers and how this communication problem has inhibited our work. For example, when we plan to have an inspection, we have to mail out a little form that seeks to obtain consent to access a person's rental unit. The form is in English and has never been translated into any other language. Recently, we planned to inspect a block of homes whose occupants were native Spanish speakers. We learned from the neighborhood group that many of the residents found the consent form confusing. So we translated the notification into Spanish, and will continue to do that, not just for these consent forms but for everything, and we'll translate our forms and communications into whatever language necessary.

With all of the changes we're making in our communications and programs, I hope people see that Regulatory Services is opening itself up in a way that it hasn't before and that we're trying to create meaningful and sustainable partnerships with communities. It's really our goal to bridge the gap between residents of Minneapolis and the city government. cd

For more about the City of Minneapolis Regulatory Services Department and its work, visit ci.minneapolis.mn.us/regservices.

* The city conducts yearly status assessments of properties on the Vacant Building Registration (VBR) list to determine whether their owners will be charged the annual fee. A VBR property can be removed from the list if its owner enters a restoration agreement or otherwise brings the property up to code, or if the property is purchased for rehabilitation purposes or demolished.

Is subprime lending making a comeback?

Continued from page 3

area and just over one-third of all consumers in the nation had a credit score below 660.

Mortgages and credit cards down, autos up

The data show that nationally and in Minneapolis-St. Paul, a much smaller share of subprime borrowers than prime borrows holds a mortgage. (See Figure 1.) And while the percent of prime borrowers with mortgage debt declined slightly after 2008, by about 5 percentage points, the percent of subprime borrowers holding mortgage debt dropped even more over the same period, by roughly 8 percentage points. This downward trend for subprime borrowers holding mortgage debt shows no signs of a reversal.

With regard to balances owed on bank-issued, general purpose credit cards, which are the most widespread form of debt reported in consumer credit files, the share of prime borrowers with bank cards has remained stable over time. (See Figure 2.) The share of subprime borrowers with bank credit card debt first peaked in 2002 at roughly 70 percent, declined afterward, and then peaked again just prior to the Great Recession. Since then, the share of subprime borrowers with bank credit card debt has dropped, by 10 percentage points in the Minneapolis-St. Paul area and by 15 percentage points nationally. Since 2012, the usage of subprime bank credit card debt has remained largely unchanged.

While mortgage and bank card usage do not show a subprime revival, auto lending tells a different story. Overall, the share of consumer credit files with auto debt rose considerably prior to the Great Recession. (See Figure 3.) During the recession, the percentage of consumer credit files with auto debt declined, but it has trended upward since late 2011. The share of subprime borrowers holding auto debt saw a big drop after 2008, but the rebound that followed was strong and brought the prevalence of auto debt usage among subprime borrowers close to its pre-recession peaks.

Even though subprime auto debt has experienced a revival, the recent recovery appears to be more robust for prime borrowers, to the point where the percentage of prime borrowers with auto debt has risen above its 2007 peak. In addition, the post-2011 increase in the number of consumers holding auto debt was higher for prime borrowers than for subprime borrowers, both nationally and in the Minneapolis-St. Paul area. For example, the number of prime borrowers with auto debt increased by 20 percent after 2011, compared to 14 percent for subprime borrowers.

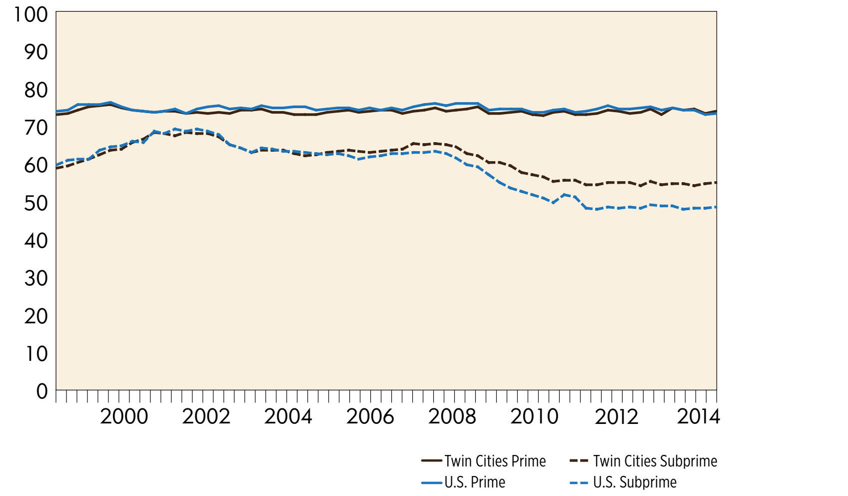
In summary, the much-discussed comeback of subprime lending appears to be limited to the auto loan market. Within this market the increase is less pronounced given the higher relative increase in prime auto lending during the same period.*

A technology boost for subprime auto lending?

The increased availability of credit to subprime borrowers seeking an auto loan may be, in part, the result of new auto-tracking technologies. For example, lenders are installing GPS (Global Positioning System) devices in vehicles purchased by borrowers with riskier credit scores. A GPS device can transmit information about the vehicle's precise location, making it easier for the lender to repossess the vehicle if necessary. Related devices can also be used to disable a car until it can be repossessed or until the delinquent borrower becomes current on his or her loan. These tools mitigate the risks associated with subprime lending by reducing default rates and increasing recovery rates when defaults do occur. As a result, they may be making lenders more willing to lend to subprime auto borrowers. cd

Figure 2

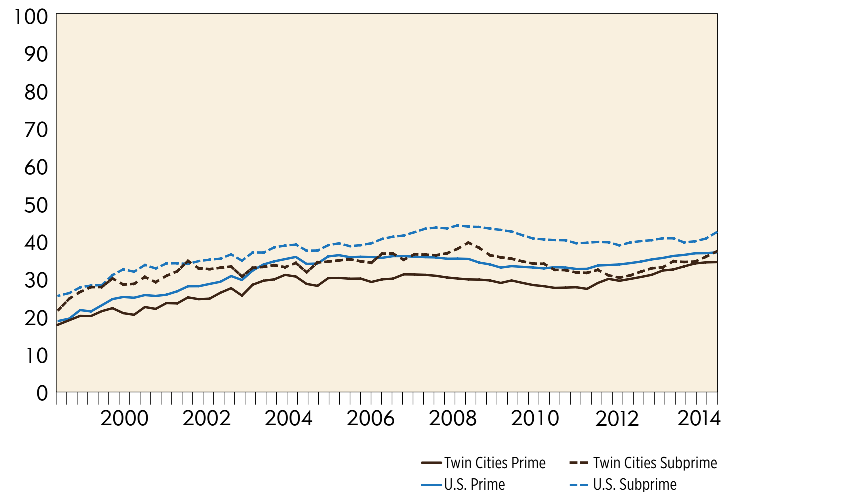
Bank Credit Card Debt Usage by Prime and Subprime Borrowers for the Twin Cities and the U.S.



Source: Federal Reserve Bank of Minneapolis calculations based on Federal Reserve Bank of New York/Equifax Consumer Credit Panel data.

Figure 3

Auto Debt Usage by Prime and Subprime Borrowers for the Twin Cities and the U.S.



Source: Federal Reserve Bank of Minneapolis calculations based on Federal Reserve Bank of New York/Equifax Consumer Credit Panel data.

* Andrew Haughwout, Donghoon Lee, Joelle W. Scally, and Wilbert van der Klaauw, "Looking under the Hood of the Subprime Auto Lending Market," *Liberty Street Economics,* Federal Reserve Bank of New York, August 14, 2014. Available at libertystreeteconomics.newyorkfed.org.

News and Notes

CDFI Fund news

The U.S. Department of the Treasury has awarded a total of more than $195.4 million to 185 community development financial institutions (CDFIs) and other organizations. A CDFI is a specialized entity that provides loans, investments, and services in underserved or economically distressed areas. The Treasury's CDFI Fund, which certifies and provides support for CDFIs, allocated the awards through the fiscal year 2014 round of its funding programs. Approximately $161 million of the total consisted of Financial Assistance and Technical Assistance (FATA) Awards to 152 certified CDFIs. Twelve of the FATA awardees also received a total of $22.4 million in Healthy Food Financing awards, which support projects that increase access to healthy, affordable food.

Another $12.2 million of the overall total was awarded through the CDFI Fund's Native American CDFI Assistance (NACA) Program, which is designed to build the capacity of existing or in-development CDFIs and other organizations that serve Native communities. More than $11.7 million of the FATA awards went to organizations headquartered in the Ninth Federal Reserve District, as did nearly $3 million of the NACA awards.

In addition, the CDFI Fund awarded a total of nearly $17.9 million in grants to 69 banks in recognition of their service to economically distressed communities. The grants were made through the CDFI Fund's fiscal year 2014 round of the Bank Enterprise Awards (BEA) Program, which provides capital to FDIC-insured depository institutions serving census tracts where at least 30 percent of the population lives at or below the federal poverty level and the unemployment rate is at least 1.5 times the national average.

Since its founding in 1994, the CDFI Fund has awarded more than $1.9 billion in FATA awards, more than $93 million in NACA awards, and approximately $411 million in BEA Awards.

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Have profound economic forces changed how people move up the economic ladder in the U.S.? Join the debate and hear high-quality, emerging research on how people and communities get ahead, where impediments exist, how factors such as inequality play a role, and what has changed over time. Featuring remarks from Federal Reserve Chair Janet Yellen.

stlouisfed.org/CD/Sys_Conf_2015

Washington, D.C.

Impact Seven receives Next Seed Capital Award

Impact Seven, a CDFI based in Almena, Wis., has been named the recipient of the 2014 NEXT Seed Capital Award for its strategy to preserve affordable housing in rural Wisconsin. The $100,000 award, which is presented by Opportunity Finance Network and funded by Wells Fargo, is part of a ten-year initiative to recognize CDFIs that have promising ideas for expanding their services in low-income communities. (For more on CDFIs, see the "CDFI Fund news" item above.) The NEXT award program began in 2007 and will continue through 2016.

Impact Seven was recognized for a program that involves buyers and sellers in preserving small, multi-family rentals in economically distressed rural areas of northwestern Wisconsin. The housing in question was originally financed through USDA Rural Development's Section 515 Loan Program and carries preservation incentives that are set to expire. Impact Seven will use the award money to rehabilitate 120 housing units over the next two years.

Calendar

Food Access Summit 2014: Organize for Equity

October 29–30, Duluth, Minn.

This gathering of professionals who work to improve access to healthy food for underserved populations in Minnesota will provide policy tools, training, and action-oriented ideas to make the food system more equitable for all. Sponsored by more than a dozen partner organizations, including AARP, Blue Cross and Blue Shield of Minnesota, and Emergency Foodshelf Network. **foodaccesssummit.org**

2014 Minnesota Healthy Communities Conference: Measuring Our Impact

November 4, Minneapolis

Join national and regional leaders in the health and community development sectors to explore joint efforts for building healthier communities. This third annual Minnesota Healthy Communities convening will focus on frameworks and measurements for assessing how community development projects influence community health. Hosted by the Federal Reserve Bank of Minneapolis, LISC Twin Cities, Blue Cross and Blue Shield of Minnesota Foundation, Healthy Futures Fund, Wilder Research, and the Robert Wood Johnson Foundation. **minneapolisfed.org/community_education/mnhealthycommunities**

Regional Indian Business Alliance Summit

December 8–9, Bismarck, N.D.

Native entrepreneurs, tribal leaders and economic development staff, educators and students, government agencies, and foundations serving Indian Country are welcome to attend this networking and learning opportunity. Featuring over 30 presentations and sessions that will explore securing government contracts, improving access to capital, developing commercial codes, and more. Sponsored by the Indian Business Alliances of North Dakota, South Dakota, Montana, Minnesota, and Wisconsin. **ndiba.com**

SAVE THE DATES! 2015

South Dakota Indian Business Alliance Conference: Expanding Economies in the New Native America

May 12–15, Deadwood, S.D.

This biennial gathering of tribal and non-tribal government and program representatives, practitioners, policymakers, lenders, educators, nonprofit organization representatives, foundations, and entrepreneurs will explore innovative solutions in developing private sector Indian businesses. Details to come at **sdibaonline.org**.

Policy Summit on Housing, Human Capital, and Inequality

June 18–19, Pittsburgh

Join academics, bankers, practitioners, and policymakers from across the Northeast, Southeast, and Midwest for this policy conversation on key issues affecting our communities. Sponsored by the Federal Reserve Banks of Cleveland, Philadelphia, and Richmond. Details to come at **clevelandfed.org**.

Conversations with the Fed: An Evening with Narayana Kocherlakota

January 8, 2015, at the Federal Reserve Bank of Minneapolis, downtown Minneapolis

Wondering what the economy holds for 2015? Have questions about the money supply? Join in a discussion on monetary policy, the state of the economy, and prospects for the coming year with Federal Reserve Bank of Minneapolis President Narayana Kocherlakota.

Details and registration available soon at minneapolisfed.org/news_events/events/conversations.