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Community Dividend

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ILLUSTRATION BY KELSEY KING

LIHTC priorities capture state affordable housing needs

By Jacob Wascalus

In 2011, the Minnesota Housing Finance Agency (Minnesota Housing) awarded $1 million of Low-Income Housing Tax Credits (LIHTCs) to Sand Companies for its proposed West View Estates development. According to Jamie Thelen, chief executive officer of the Minnesota-based construction, property management, and real estate developer, the federal tax allocation was instrumental in enabling his company to build the 67-unit building and offer the apartments at affordable rates.

"We could never have provided a project of this high quality at our rent price without the tax credits," he says, explaining that rents in the building are 20 to 25 percent lower than those for comparable apartments in the area.

Among the reasons Sand Companies received the tax credits was the project's location and targeted tenants. Situated ten miles west of Minneapolis in Plymouth, Minn., and containing primarily two- and three-bedroom units, West View Estates met two of Minnesota Housing's affordable housing priorities: developments in areas with higher incomes and plenty of jobs, and developments for families.

Every year, state housing agencies such as Minnesota Housing examine their affordable housing needs to determine how best to direct the LIHTC, a federal tax credit program designed to spur private investment in affordable housing. For example, do a state's demographic trends show a need for housing in central cities, suburbs, or smaller cities? Do they show a need for housing for long-term homeless, families, or seniors? What kinds of projects do developers have an appetite to build? And what needs are social service agencies seeing? The answers to these questions and more form the priorities housing finance agencies (HFAs) use to allocate the tax credits.

Community Dividend interviewed representatives from state HFAs in the Ninth Federal Reserve District to learn more

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PHOTO COURTESY OF THE CITY OF ST. PAUL

At a procurement fair in St. Paul, Minn., on January 20, Ellen Muller of the City of St. Paul's Planning and Economic Development Department (center) encourages small business owners to expand their access to government contracting opportunities by registering with the Central Certification, or CERT, Program.

Business certification program helps bring inclusion to the procurement process

By Jacob Wascalus

How can small businesses that are seeking to grow, including enterprises owned by women and minorities, gain access to more government contracting opportunities?

Tisidra Jones, a lawyer managing the vendor outreach program at the City of St. Paul, has a suggestion for businesses in the Minneapolis-St. Paul area: become CERT-certified.

Launched in 1998 by a group of public entities that included the City of St. Paul (the lead agency), Hennepin County, and Ramsey County,[1] CERT (short for "Central Certification") was created to identify businesses that can help its founding entities and others meet their diversity and inclusion goals. For example, the City of St. Paul requires all of its contracts to include opportunities for small business enterprises (SBEs), which includes the subcategories of minority-owned business enterprises (MBEs) and women-owned business enterprises (WBEs). The CERT Program verifies a business's status as an SBE, WBE, or MBE; categorizes the type of work the business does; and maintains the record in an online database located at cert.smwbe.com. Larger enterprises, such as construction firms, that are pursuing government contracts containing inclusion requirements can then consult this database in order to find SBE-, WBE-, or MBE-verified contractors or subcontractors to hire. To meet the inclusion goals of CERT's creators, consulting the database is an absolute must: The City of St. Paul, Hennepin County, and Ramsey County, when checking for compliance with their contract requirements, recognize only those small businesses that are enrolled in the CERT Program.

"There are hundreds of millions of dollars paid out in contracts each year from local government," says Jones, "and there are many opportunities for small businesses to win some of those contracts."

The CERT database currently contains nearly 1,300 SBEs with active certifications, and approximately ten additional applicants receive certification each week, according to Jones. Certifications remain active for three years. As of January 2015, roughly 45 percent of the businesses in the database are WBEs, 30 percent are MBEs, and 25 percent are white-male-owned SBEs. To be eligible for registration, a business must be headquartered in one of the 15 counties that make up the Twin Cities metropolitan region[2] and must meet industry-, size-, and some demographic-specific conditions (SBEs do not have gender- or race-based ownership conditions).[3]

"Although CERT is the largest database of its kind in Minnesota, the number of certified businesses in the database is a drop in the bucket," says Jones, noting that the database contains about 750 additional businesses whose certifications have expired but who can apply for recertification. "We know there are so many more small businesses out there that qualify. We want them to register."

Documenting disparities and narrowing gaps

For the entities that consult the CERT database, business inclusion is a priority. That's especially so for the City of St. Paul, where inclusion is the law. In 2006, the city conducted a procurement disparity study to better understand who was winning city contracts and how much money was going to different types of businesses. The analysis revealed a considerable gap between large companies and companies that fell in the SBE, WBE, and MBE categories—particularly the latter two. To increase the share of expenditures going to these businesses, the city enacted an ordinance in 2008 requiring all city contracts, with limited exceptions, to include business inclusion goals. Generally on projects, 5 percent of the business opportunity should be targeted toward MBEs, 10 percent to WBEs, and 10 percent to SBEs, for an overall 25 percent inclusion goal.

A comparison between the City of St. Paul's pre- and post-ordinance contract expenditures illustrates the significance of the changes. Of the $128 million the city paid out for city construction projects and professional services in 2008, just $4.85 million, or 3.7 percent, went to WBEs, MBEs, or SBEs. At the end of 2014, the business inclusion goals set a half-decade earlier had had the desired effect: the city awarded 41 percent of the $437 million available for goods and services, or about $180 million, to MBEs, WBEs, and SBEs. The exact breakdown was 18.19 percent to SBEs, 17.75 percent to WBEs, and 5.35 percent to MBEs.

"We're thrilled that we exceeded our goals," Jones says. "We're now looking into having an updated disparities study to see what's changed in our marketplace and if our target numbers need to increase as well."

While Hennepin County doesn't have specific goals for MBEs or WBEs, it does have inclusion goals for SBEs: 20 percent of the expenditures for commodities, maintenance,

> "There are hundreds of millions of dollars paid out in contracts each year from local government, and there are many opportunities for small businesses to win some of those contracts."
>
> —*Tisidra Jones, City of St. Paul*

and operational services, such as office supplies and waste removal; 25 percent of the expenditures for "hard" construction contracts, such as road improvements; and 25 percent of the expenditures for personal and professional services, such as information technology services. Ramsey County also focuses on SBE growth opportunities by granting department directors the authority to pursue contracts with a small business directly, if the total contract cost is $100,000 or less. The transactions must follow established solicitation policies and procedures and, for construction projects, must have SBE goals in place.

In addition to the entities that created CERT, a group of prominent organizations in the Twin Cities area, including the University of Minnesota, the Minnesota Council on Foundations, and Knutson Construction, use the CERT database to find SBEs, MBEs, and WBEs to conduct business with.

"Many of these entities have diversity inclusion goals of their own," says Jones, "and they want to make sure that they're doing their best to include local small businesses." cd

What about non-CERT certifications?

Small businesses in the Twin Cities area and beyond, including minority- and woman-owned enterprises, may pursue certification credentials with other small business recognition programs to expand their marketability and contracting opportunities. These certification programs come with varying degrees of requirements and are recognized by different public entities and organizations. Some examples:

Programs for Minnesota-based businesses

- The Minnesota Unified Certification Program (MnUCP) operates the Disadvantaged Business Enterprise (DBE) Program on behalf of the U.S. Department of Transportation. This is a federal certification that is accepted by the City of Minneapolis, the Metropolitan Council (a multi-jurisdictional planning body in the Twin Cities region), the Minnesota Airports Commission, and the Minnesota Department of Transportation. **www.mnucp.org**
- Minnesota's Department of Administration operates the Targeted Group/Economically Disadvantaged (TG/ED) Small Business Program. This is a state certification. **www.mmd.admin.state.mn.us/mn02001.htm**

Other programs

(For information on state- or region-specific programs where you are, contact your state's commerce department or your local chamber of commerce.)

- The U.S. Small Business Administration operates a program to certify small businesses. This is a federal certification. **www.sba.gov/offices/headquarters/obd/resources/4210**
- The Women's Business Development Center operates a program to certify woman-owned businesses. This is a private certification. **www.wbdc.org**
- The North Central Minority Supplier Development Council operates a program that certifies minority-owned businesses. This is a private certification. **www.northcentralmsdc.net**

To determine which certifications to pursue, Pat Calder, a senior equal opportunity consultant at the Metropolitan Council, suggests a fairly straightforward tactic: "Look at where the funding comes from. If the contract is from a federal agency, you'll want to look at a federal certification. If you're in Minnesota, say, and you're looking at contracts that are paid for with just state money, then you probably want to look at the TG/ED program. Similarly, if you're looking at a contract that is local, such as from the City of St. Paul, then you'll want the CERT certification. The only exception to this tactic is with the City of Minneapolis. Although it's not a recipient of federal dollars, the city utilizes only MnUCP DBE certified firms to meet its small and underutilized business program goals."

[1] St. Paul Public Schools and the City of Minneapolis were also among the original government entities that funded the creation and maintenance of the CERT database and program. St. Paul Public Schools later withdrew due to budget constraints. Starting in 2012, the City of Minneapolis ceased recognizing businesses in the CERT database and switched to the Minnesota Unified Certification Program, which is described in the sidebar above.

[2] Eligible businesses must be based in the Minnesota counties of Anoka, Benton, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Stearns, Washington, or White; or the Wisconsin counties of Pierce or St. Croix.

[3] To access information about the conditions that businesses must meet to be certified as SBEs, WBEs, or MBEs, follow the "Eligibility Criteria" link on the CERT home page at cert.smwbe.com.

Helping minority entrepreneurs succeed:

A conversation with Gary Cunningham of the Metropolitan Economic Development Association

By Jacob Wascalus

Running a successful small business takes grit, determination, and countless hours of hard work. For entrepreneurs of color, it might also take some specialized help with connecting to financial and market opportunities. That's where organizations like the Metropolitan Economic Development Association, or MEDA (meda.net), come in. Founded in 1971 with a mission to help entrepreneurs of color succeed through equal economic participation, MEDA has since helped more than 19,000 small enterprises in Minnesota. The 26-person organization, which is headquartered in Minneapolis and has a satellite office in Washington, D.C., provides a range of business support services that includes business development assistance, financial assistance, and access to corporate and government market opportunities. Last year alone, the organization supported businesses that employed approximately 6,500 people, 40 percent of whom were people of color, and that had a customer revenue base of more than $1.3 billion.

To learn more about the current and future landscape for minority-owned businesses in Minnesota, *Community Dividend* spoke with Gary Cunningham, MEDA's president and chief executive officer. Cunningham joined the organization in 2014, after serving as a vice president with the Northwest Area Foundation for several years. Here he shares his insights on some of the obstacles minority entrepreneurs face, as well as several important matters they should consider before starting a business.

Community Dividend: How would you describe the current landscape for minority-owned businesses in Minnesota?

Gary Cunningham: We typically look at data to answer that question, and judging from information from the U.S. Census Bureau's American Community Survey and from the Corporation for Enterprise Development [www.cfed.org], Minnesota, compared to other states, is really in the middle of the pack on business development in general and minority business development specifically. We're not the best but we're also not the worst. Minnesota does, however, have some significant disparities statewide between the number of businesses being created by communities of color and those being created by majority communities. In Minneapolis-St. Paul, you do see a good number of small storefront-type businesses—particularly in ethnic immigrant communities—and so they might be overrepresented a little in the Twin Cities metro area. But when it comes to major small businesses—the ones that are the backbone of our country—many of those businesses don't represent or reflect the racial demographics of the state.

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LIHTC priorities capture housing needs

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about how their affordable housing priorities have changed over time, what they are currently, and where they may lie a half-decade from now. Common themes emerged from the respondents, such as the need for preserving existing affordable housing, but states also responded with priorities and predictions that reflected the specific needs within their boundaries.

How the tax credit works

Established in the Tax Reform Act of 1986, the LIHTC Program is the largest federal program for building or preserving affordable rental housing for low-income households. Under the program, each state receives a block of federal tax credits every year that it then allocates to nonprofit or for-profit developers to help finance affordable housing projects. The total value of the tax credits distributed to each state is based on either a calculation of $2.30 per state resident or a minimum of $2,680,000, whichever is higher.[1] For example, a state with 10 million residents would receive total tax credits of $23 million, while a state with 1 million residents would receive a total of $2.68 million.

Although the LIHTC Program is part of the federal tax code, state HFAs are charged with administering much of it, including allocating the tax credits to individual projects. By law, each HFA is required to produce a document called a *qualified allocation plan* (QAP) that reflects its state's affordable housing priorities. The QAP, which is updated annually or at another regular interval, depending on the specific state, explains how the HFAs will evaluate and score project proposals that developers submit for LIHTC consideration. Federal regulations require HFAs to give preference to projects that, among other things, serve the lowest-income residents and provide affordable housing for the longest period of time. At minimum, the program requires housing units to remain affordable for a period of 30 years.

The application process for the tax credits is highly competitive, with states often receiving many times more proposals than they can award credits to. But developers who do receive a tax credit allocation can then sell the credits to banks or other investors to raise capital for their projects.[2] In turn, this reduces the debt the developer needs to take out, which enables the developer to ultimately charge lower rents.[3]

Location, location, location

The location of an affordable housing project, whether in an amenity-rich area or close to an employment center, emerges as a common LIHTC-allocation priority for several states in the Ninth District. One such state is Michigan. According to Andrew Martin, the allocations manager for the Michigan State Housing Development Authority (MSHDA), affordable housing developments proposed for city centers and areas in close proximity to services are viewed favorably in the Wolverine state.

"We're very interested in supporting projects that advance neighborhood revitalization," he says, noting that a project's cost containment, walkability,[4] "green features," and its developer's track record are also important factors in making allocation awards, as is its economic integration (i.e., its mix of low-income and market-rate units).

Martin cites a project's accessibility to multimodal transportation options as something that MSHDA currently prioritizes. Although the Michigan HFA has recently awarded a lot of LIHTCs to projects located in larger population centers, it also favorably views proposed projects in smaller cities and towns that meet many of the MSHDA-expressed location priorities, such as if the site's physical address is situated near a lot of services.

Minnesota is another state where location efficiency is an important priority. Projects that are situated near public transportation and that are deemed walkable may receive a favorable evaluation by Minnesota Housing. According to the agency's commissioner, Mary Tingerthal, the state also emphasizes the importance of a project's proximity to employment opportunities, particularly jobs whose workers would qualify to live in these income-restricted developments. Minnesota, as is also the case in Michigan, is finding a growing need for workforce housing and will likely prioritize this type of development in the future.


ILLUSTRATION BY KELSEY KING

"We need to build affordable housing in communities, including smaller communities, where there are more jobs than there are people to fill them," says Tingerthal.

As an example, she cites the city of Jackson, Minn., which has a population of approximately 3,300. The small, rural city is home to a large employer but has few affordable housing options within its border. In fact, the closest cluster of multi-unit subsidized housing properties is more than 30 miles away, and for a rural area with limited busing options—just a Community Action bus that serves three counties—the reliance on personal vehicles for getting to and from work can strain a household budget.

The Bakken effect

Some LIHTC priorities have arisen from the Bakken oil-shale region of western North Dakota and eastern Montana, where the frenetic drilling activity over the past half-decade has had a tangible ripple effect on the housing market. The unprecedented in-migration of workers, coupled with a limited supply of housing, has caused rents for once-affordable market-rate rental units to swell to the point that many people on fixed incomes are struggling to find housing that they can afford. During the run-up to the energy boom, the North Dakota Housing Finance Agency (NDHFA) had been more focused on ensuring that the state's existing affordable housing inventory remained on the books and available to qualifying renters. But the recent tightening of the housing market has prompted the department to prioritize the construction of new units to help meet the increase in demand.

According to Jolene Kline, executive director of NDHFA, the difficulty in filling the state's 10,000-unit affordable housing gap is compounded by increased costs of construction, which have been driven upward by higher labor and material costs. Still, NDHFA is currently adding about 150 units a year across four or five projects, with one priority being the creation of units tar-

Total Population-Based LIHTC Allocations to Ninth District States, 2003–2012*

Michigan	Minnesota	Montana	North Dakota	South Dakota	Wisconsin
$202,436,481	$104,819,163	$23,335,000	$23,335,000	$23,335,000	$112,853,762

Because their state populations did not push per capita Low Income Housing Tax Credit (LIHTC) calculations above the minimum allocation threshold, Montana, North Dakota, and South Dakota each received floor-level LIHTC allocations each year from 2003 through 2012.

*These figures represent a slight undercounting of actual LIHTC totals, because they do not include LIHTCs that are allocated to each state from a national pool of unused tax credits, nor do they include returned or carryover credits. Figures for Michigan and Wisconsin are for their entire states, not just the portions that lie in the Ninth District.

geted to seniors and people with special needs, many of whom are on fixed incomes.

"A lot of seniors and other people are living on fixed incomes and it's becoming increasingly difficult for them to afford housing in an environment with escalating rents," she says. "When you keep hearing about seniors being forced out of communities, it's a state need to keep those people adequately housed in their local communities."

Kline mentions that the recent dip in global oil prices has slowed the oil-extraction activity lately, which in turn could lower demand for housing in many parts of the state should workers start leaving their jobs. Under such a scenario, NDHFA may return to prioritizing the continued affordability of its existing subsidized housing inventory, as it did before the oil boom.

In the state to the west, the Montana Board of Housing (MBOH) allocates LIHTCs to a variety of projects, including to developments located close to public amenities. However, the agency has more recently reacted to the need for affordable housing near its border with North Dakota by making a $403,000 allocation in 2012 to a project in Sidney, Mont., that added 20 affordable units to the area. According to Mary Bair, program manager at MBOH, the department prioritizes projects that are appropriately sized for their market area, including projects in small rural communities. The MBOH also prioritizes projects that use green building and energy conservation standards.

People-based priorities

Multiple states in the Ninth District have also identified LIHTC allocation priorities based on the needs of specific populations. For example, South Dakota's HFA, the South Dakota Housing Development Authority, places a priority on reducing homelessness and serving difficult-to-house individuals, and Minnesota Housing currently supports proposed developments that serve the long-term homeless. Minnesota Housing's approach is integration-based: rather than allocate credits to a project that is entirely dedicated to housing these families and individuals, the agency prefers that a developer set aside a small number of housing units for this targeted population within a larger development—for instance, a building with 60 units that reserves 4 units for long-term homeless.

"Doing it this way has helped us to deconcentrate these very, very low-income families," says Commissioner Tingerthal. "It gets people into a positive environment where other people are going to work and going to school. It's been a really successful model for us."

Tingerthal sees her agency gradually shifting its priority of setting aside units for the long-term homeless into a priority for housing families with children and also housing unaccompanied homeless youth, a demographic she says is on the rise.

As in North Dakota, both Minnesota Housing and the Wisconsin Housing and Economic Development Authority (WHEDA) identify seniors as an emerging priority. David Sheperd, a commercial lending officer at WHEDA, explains that his state's demographic trends lead him to believe that housing for elders will become a priority in the coming years. Wisconsin currently prioritizes housing for special-needs populations, including homeless veterans and people who require supportive services. Sheperd believes those areas will continue to be a priority several years from now.

In Minnesota, Tingerthal states that her department is just now beginning to explore appropriate ways to target housing for very low-income seniors, who she says are ill-positioned to retire comfortably: "We have the Baby Boomers moving into their senior years, and unfortunately a lot of them don't have much in the way of retirement savings."

Maintaining affordability

For all of the states in the Ninth District, preserving their inventories of affordable units is another top priority—currently and in the coming years.[5]

For instance, although NDHFA currently prioritizes adding to its roster of 9,700 units, the agency reserves the right to allocate LIHTCs to existing developments should properties' owners indicate that they may allow the 30-year affordability requirement associated with the LIHTC Program to expire. Many residential buildings nearing three decades of service require physical upgrades and rehabilitation, and a fresh allocation of tax credits could help finance a renovation. By using the LIHTC, such a property would then remain on a state's affordable housing roster for another 30 years. But without a new allocation, the owner of such an affordable housing property could allow the tax credits to expire, take out a commercial loan to pay for physical enhancements, and subsequently increase rent prices to match market rates. This is a real concern in a state like North Dakota that has seen so much upward pressure on its housing market. According to NDHFA's Kline, even though only 3 to 5 percent of the state's portfolio of affordable housing currently is eligible to opt out, if a developer signals that its property could be lost from the state's inventory, the agency will revisit the developer's application for a new allocation of tax credits.

Minnesota currently has an affordable housing inventory of approximately 100,000 units, according to Minnesota Housing's Tingerthal, who also notes that an estimated 600,000 households in Minnesota are considered cost-burdened.[6] Like in North Dakota, the inventory includes LIHTC-subsidized housing as well as developments supported or created through other programs, such as the U.S. Department of Housing and Urban Development's Section 8 program or the U.S. Department of Agriculture's Rural Development program. And some of these units are four decades old.

"We're getting to the point where we need to start paying attention to some of the oldest LIHTC properties in the state," Tingerthal says. "We take very seriously our stewardship of our existing affordable housing inventory because we think it's such an important and precious resource for the state, and preserving existing affordable housing is a lot less expensive than building new affordable units."

Michigan's Martin, whose state has more than 230,000 units of affordable housing, sums up the compounding problem associated with building new affordable units: "Every time you make an award of credit for new construction, you've essentially created a new preservation deal at some point in the future."

Changing the grade

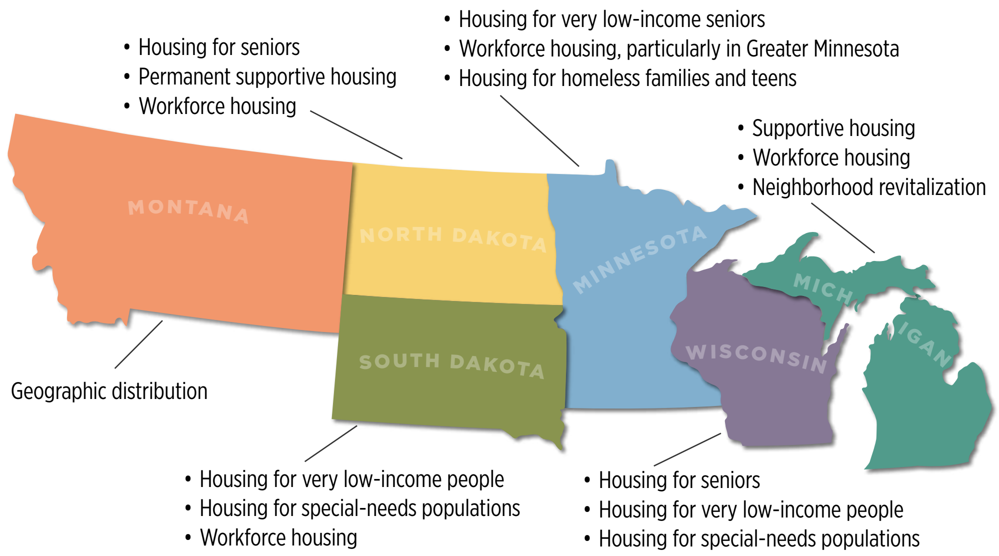
For developers, knowing, understanding, and even reacting to the priorities of state HFAs can help them better prepare for the competitive LIHTC application process. States will often release in their QAPs a self-scoring worksheet that weights their varying priorities. Developers fill out the worksheet and can see how closely their proposed developments sync with state needs.

"We'll make modifications to our project proposals if we can get points for certain items," says Thelen, the developer of the West View Estates apartment building outside Minneapolis. "As long as the project still makes financial sense, we'll typically follow the housing agency's priorities." cd

Potential LIHTC Allocation Priorities for Ninth District Housing Finance Agencies

All states believe the need for preservation will be an ongoing priority.

These priorities are speculative and are subject to change.



ONLINE EXTRAS


Mary Keefe, Hope Community


Dan Smith, U.S. Bank


James Lehnhoff, Aeon

EXPLORE more facets of affordable housing development through video extras on our YouTube channel at **www.youtube.com/user/MinneapolisFed**. You'll find interview excerpts that provide a banker's and a developer's perspectives, plus a feature titled *How Can a CDC Transform a Neighborhood Through Affordable Housing?* that shows how one nonprofit organization is using affordable housing to rebuild a long-neglected intersection.

[1] For more information about the amounts of tax credits distributed to states each year, visit www.novoco.com.
[2] The credit is actually applicable for a ten-year period, meaning a bank that buys $1 million of tax credits, for instance, can claim a $1 million reduction in federal tax liability every year for a decade.
[3] It is worth noting that the rents of the affordable units, as well as the income earned by the tenants, are subject to limits based on area median gross incomes. For more information on these limits, visit portal.hud.gov and enter "LIHTC" in the search box.
[4] To help evaluate the strength of a project's location, MSHDA and MHFA use the website www.walkscore.com, which measures a project's proximity to amenities and its centrality.
[5] For a searchable database of affordable housing preservation policies for all 50 states in the U.S., visit prezcat.org.
[6] A cost-burdened household is one that pays 30 percent or more of its monthly gross income on housing.

Gary Cunningham

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PHOTO BY CHRIS LONG
Gary Cunningham

CD: What appears to be driving the disparities in business creation?

GC: One prominent factor is the amount of personal assets a person who wants to start a business has. Look at homeownership. Home equity is one of the main sources of financing for small businesses, and when you look at homeownership rates between minority and majority communities, you see a large difference.[1]

Moreover, when you look further into household assets, there are analyses showing that the average white family has about $110,000, the average black family has somewhere around $6,000, and the average Hispanic family has about $7,500. Those differences are huge. And when you're an entrepreneurial person who wants to start a business, the assets you have make such a big difference.

Interestingly, for those minorities who succeed in creating a business, the disparities are reflected in business value as well. If you look at data from the Corporation for Enterprise Development, you'll see that white-owned businesses in Minnesota have 2.7 times the sales and receipts of businesses owned by people of color.[2]

Having limited access to long-term "patient" capital is also a large problem. That's the capital that minorities are missing out on, and that's the capital that helps build the foundation for strong businesses—the kind of funding that entrepreneurs could use to invest in the infrastructure of their businesses, on things like equipment. A lack of patient capital is why some minority entrepreneurs face challenges growing their businesses. And that's part of the reason why we need targeted programs to help address some of these deep-rooted disparities, which would continue if not for some type of intervention.

CD: Let's talk about interventions. What kinds of resources are available to help minority-owned businesses get established and grow?

GC: At the government level, each state has an agency that works with businesses to help them grow. Many federal agencies do, too. They have programs for socially disadvantaged businesses, which can include businesses owned by women as well, and these programs are set up to specifically address some of the discrimination that minority entrepreneurs have faced historically. They exist to ensure that everyone gets a fair shot at succeeding. The State of Minnesota's Department of Employment and Economic Development has done a great job of expanding opportunities for all small businesses, but in particular minority small businesses. DEED has programs that support minority-owned businesses in the Twin Cities and American Indian-owned businesses statewide, among other types of enterprises.[3]

In the Twin Cities, there are a number of nonprofit organizations that serve small businesses, including minority-owned businesses. MEDA is one, but there are others—for example, Women Venture [womenventure.org], Neighborhood Development Center [ndc-mn.org], Latino Economic Development Center [ledc-mn.org], and African Development Center [adcminnesota.org]. These organizations are good resources for minorities to tap into to help create and grow their businesses successfully.

Many of these nonprofits offer front-end technical assistance and consulting services, where they'll help entrepreneurs develop marketing and business plans, for example, or teach them how to keep accurate books and examine their markets. These are important resources because they really help budding entrepreneurs understand the fundamentals of successfully owning and operating a business.

Some of these organizations also offer programs that help businesses remain capitalized and grow. To highlight a program that MEDA offers, for example, we have a loan fund from which businesses can access up to $400,000 in working capital. That's money to help pay the ongoing expenses of a business, like payroll and inventory.[4]

CD: How strong is the demand for these resources and services and how effectively are organizations deploying them?

GC: There is a greater demand than we can meet. No question there. I've observed that in communities of color, many more people want to become entrepreneurs than there are resources to help them. As for how effectively organizations deploy their resources, the models of service delivery vary. But in general, at least for the technical expertise that these organizations provide, it's a fairly labor-intensive service. Organizations are either going to train a group of people together, in a large room, or provide one-on-one training. At MEDA, we've found that one-on-one, in-depth consulting, combined with other supports (like loan funds and training in business operations), is the best combination to move a business from unprofitability to profitability. But because the model we have is very labor-intensive, the question becomes, How do we improve upon that model so we can serve more people? That's what I'm currently working on: How can we, at least at MEDA, improve upon the resources we have in order to get more people through the pipeline?

CD: What advice would you give to minority entrepreneurs who are considering starting a business?

GC: The number one thing is to make sure you have enough capital to run the business. Many entrepreneurs go into business and simply don't have enough money to keep it going. They end up robbing Peter to pay Paul and then ultimately go out of business because they're undercapitalized. To make sure they have enough capital to operate a business, I'd recommend that they have a clear and sound understanding of what it is as a business that they are trying to do. I'd also ask them: What is their value proposition? Who are their customers and stakeholders? What are their costs going to be? And what will their revenue streams be and how will they get their merchandise to market? These are all critical questions that need answering if they're going to go into business.

Another thing is fully understanding what business opportunities are out there. Take government contracts as an example. These can be terrific sources of revenue, but understanding how to get a contract from a government department can be confusing. [MEDA offers a program that trains entrepreneurs in how to do business with the federal, state, and local governments, called MN-PTAC. For more information, visit meda.net/mnptac.]

Most entrepreneurs I meet are tenacious people who have a good idea of what they want to do and are eager to work hard. But sometimes they haven't thought through all of the steps that are necessary in order for them to obtain an appropriate level of capital, deal with the financial realities of running a business, and differentiate themselves in the marketplace. And understanding and taking these steps is essential. That's where the training courses I mentioned can help.

CD: What's your outlook for minority-owned businesses? Do the challenges seem to be getting better or worse?

GC: I definitely think things are getting better. There are changes on the horizon, like increasing access to capital and increasing educational opportunities, that will help entrepreneurs of color succeed in creating and sustaining businesses. As the economy improves, so will the conditions for minority entrepreneurs. I very much believe in the old adage, "We all do better when we all do better."

CD: How will MEDA evolve with the changes?

GC: We're actually in a strategic planning process to determine how we can increase the size and scale of our efforts, including by expanding our regional footprint. How do we help people in Des Moines or Rapid City, for example? By expanding our services beyond the base that we've established already, we can have a ripple effect on employment opportunities for people of color.

Also, the ecosystem of organizations that work in this field needs better coordination in order to serve entrepreneurs of color. If a mainstream financial institution can't make a deal work with an entrepreneur, how can MEDA, or any of the other organizations I've mentioned, work with the mainstream banking community to become one of those places that can step in and help the entrepreneur?

CD: Let's close on a more personal note. You have a lot of experience working in the areas of poverty reduction and minority small business development—at Northwest Area Foundation and other organizations and now at MEDA. Considering the challenges involved, what keeps you going?

GC: Well, I think it's important that we help *all* small businesses succeed, not just minority-owned ones. Small businesses are, after all, the backbone of our economy, and they hire a great percentage of our workers to keep the economy humming. That said, we need to have targeted programs and resources to ensure that everyone can actually participate in our great marketplace. So I would argue that it's important, given the demographic shifts that are going on in this country, to build and support minority-owned businesses.

When we talk about economic inequalities and work and employment, there's no better program than minority business development to address some of these disparities, because minorities hire minorities at a much higher rate than anyone else. That's been demonstrated over and over again. And given the fact that Minnesota has an unemployment rate that is two times higher for workers of color, you can see why this would be an important strategy going forward. That's why I'm doing what I do. cd

[1] According to the 2011–2013 Three-Year American Community Survey, 24 percent of black or African American households lived in owner-occupied housing units, compared to 76 percent of white households.
[2] For more on this, see the Corporation for Enterprise Development's *Assets and Opportunity Scorecard* web site at assetsandopportunity.org/latest/measure/business-value-by-race.
[3] For details about DEED's programs, visit mn.gov/deed/business/financing-business/deed-programs/index.jsp.
[4] For more information about MEDA's various loan programs, visit meda.net/services/business-financing/loan-program.

Looking for refi-eligible homeowners who have high-interest loans: Who's leaving money on the table?

By Michael Williams and Jacob Wascalus

From November 2011 through May 2013, 30-year conventional mortgage rates dipped below 4 percent, reaching a historic low of 3.35 percent in late 2012. During this period, roughly 37 percent of all mortgages in the U.S. were refinanced.[1] As mortgage rates rose during the summer of 2013, reaching 4.5 percent in September of that year, the pace of refinancing slowed sharply. Yet since that month, rates have again declined, officially falling below 4 percent in December 2014. This current dip represents another refinancing opportunity for homeowners, and it prompts some questions, such as: How many homeowners are well-positioned to refinance but haven't done so yet? And are they concentrated in certain places where targeted outreach could raise their awareness about the opportunity? To explore those questions, the Community Development Department of the Minneapolis Fed analyzed a dataset called CRISM that combines consumers' mortgage-performance data with their credit profile data. Our findings, described below, show that there are a few pockets of the Ninth Federal Reserve District where a relatively high percentage of homeowners may be missing an opportunity to save money on their mortgages.

Two perspectives

To shape our analysis, we considered the perspectives of the two main parties involved in refinancing mortgage loans: homeowners and lenders. When determining whether refinancing makes sense financially, homeowners typically weigh a number of factors, including how long they plan to stay in their home and how much they will incur in closing costs, but usually the key consideration is how much lower a new interest rate will be compared to their current rate. A lower interest rate can help homeowners save many thousands of dollars over the lifetime of their loan. The greater the gap between the old and new rates, the greater the savings.

While the promise of reducing their monthly mortgage payments might motivate homeowners to want to refinance, lenders will likely consider several factors before agreeing to make a new loan. For instance, what is the value of the home compared to how much is currently owed? Or, looking at a borrower's monthly expenses, how much other debt does the homeowner have? The answers to these and other questions about a borrower's personal finances will ultimately determine whether a lender will agree to refinance a mortgage.

Thresholds and findings

To identify areas in the Ninth District where a large share of homeowners might be good candidates to refinance, we examined the CRISM database, which is a proprietary dataset produced by Equifax. As mentioned above, CRISM combines the performance data of homeowners' mortgages with their broader credit profiles (excluding current employment status, assets, or income history).

The first step in our analysis was to use CRISM's mortgage performance data to determine the interest rates of mortgages throughout the Ninth District, in order to identify areas where homeowners have the highest rates and thus the greatest potential to see long-term savings from refinancing to a lower rate. We found that as of December 2014, 17.5 percent of the mortgages in the Ninth District were above our "high interest" threshold, which we define here as mortgages whose interest rates are at least 1.5 percentage points higher than the prevailing available rate. At the end of last year, "high interest" meant a mortgage with a rate of 5.36 percent or higher (based off of a prevailing rate of 3.86 percent at the time). Compared to the 11 other Federal Reserve districts, the Minneapolis Fed's district boasts the smallest share of high-interest loans in the country. But the shares of high-interest loans within the district's 57 micro- and metropolitan statistical areas vary, sometimes significantly, from a low of 13 percent in Helena, Mont., to a high of 41 percent in Sault St. Marie, Mich.

Next, we used CRISM to identify which of those high-interest loans would be most likely to meet lenders' criteria for refinancing. To do so, we applied additional thresholds similar to those that lenders themselves might apply when deciding whether they would agree to refinance, including whether the homeowner:

- Is current on his or her mortgage payments,
- Doesn't have a second mortgage on the house,
- Is current on all other debts,
- Has a credit score of at least 680, and
- Currently has a mortgage balance of less than 90 percent of the value of the home.

(For more details about our analysis, see the sidebar "More about our methodology," which is available with the online version of this article at www.minneapolisfed.org/publications/community-dividend.)

If borrowers with high-interest mortgages also met our additional thresholds, we considered them reasonable candidates for refinancing. We calculated that across the Ninth District as a whole, only 8.2 percent of mortgage-holding homeowners met all of our thresholds. However, a few communities in the Upper Peninsula of Michigan, as well as one in Minnesota and one in South Dakota, contained a relatively high share of households that, by our definition, seem like reasonable refinancing candidates.

Leading the group is Houghton, Mich., where 17.0 percent of mortgage-holding homeowners meet our thresholds. Also in the Upper Peninsula are Escanaba (16.6 percent) and Sault Ste. Marie (15.6 percent). One potential cause of the increased rates in this area is the relatively elevated level of unemployment (and therefore decreased level of income), which our analysis doesn't measure. The unemployment rate for the Upper Peninsula of Michigan in December 2014 was 6.5 percent, compared to a national rate of 5.4 percent at that time.[2]

At 3.0 percent, unemployment doesn't appear to be a problem in the Huron, S.D., metropolitan statistical area (MSA). In that community, 16.3 percent of mortgage-holding homeowners meet our thresholds for being refi-eligible. And in the Worthington, Minn., MSA, where unemployment is even lower, at 2.8 percent, 15.8 percent of mortgage-holding homeowners appear capable of refinancing, based on our thresholds.

A notable aspect about Worthington is that, of all the communities examined in this analysis, it contains the highest share (14.8 percent) of mortgage-holding homeowners who have delinquent debt that is not associated with their first mortgage (and therefore do not meet our definition of refinance-eligible homeowners) but are otherwise current on their mortgage payments.[3] This means that if these delinquent debts, attributable to things such as credit cards or car loans, could be retired or at least kept up-to-date, the share of mortgage-holding homeowners seemingly capable of refinancing would climb even higher.

Information for helping homeowners

Identifying places that have concentrations of refi-eligible homeowners may have practical applications for nonprofit organizations and financial institutions that serve those communities. For example, Lisa Graphenteen, chief operating officer at Southwest Minnesota Housing Partnership—which supports sustainable homeownership opportunities through educational services, among other activities—says that news of Worthington's relatively high percentage of homeowners with delinquent non-mortgage debt could help inform her organization's work in the Worthington area.

"Despite this area having low unemployment rates, it also has census tracts with high poverty levels of 22.3 percent and 39.2 percent,[4] so people may be relying on credit cards," she speculates. "This information provides a great opportunity for our organization to examine how we can market some of our educational courses, like financial literacy, budgeting, and mortgage counseling." cd

Interested in further analyses of the mortgage market in the Ninth District? Visit the Minneapolis Fed's Housing Market and Mortgage Conditions web page at www.minneapolisfed.org/community/community-development/housing-market-and-mortgage-conditions.

[1] Authors' calculations using data from Black Knight Financial Services McDash.
[2] The Michigan unemployment figure is from the Michigan Department of Technology, Management, and Budget's Bureau of Labor Market Information and Strategic Initiatives; the national figure is from the U.S. Bureau of Labor Statistics.
[3] For the entire district, 9.2 percent of mortgage-holding homeowners fall in this category.
[4] The figures Graphenteen cites are from Minnesota Housing Finance Agency Community Profiles that are generated in PolicyMap and based on 2007–2011 data from the U.S. Census Bureau's American Community Survey. For more information, visit mnhousing.gov and enter "Community Profiles Interactive Map" in the search box.

Share of Mortgages that Are Both High-Interest and Reasonable Candidates for Refinancing

The table below lists the top three results for each state in the Ninth Federal Reserve District. (Results for Michigan and Wisconsin reflect only the portions of those states that lie in the District.)

Upper Peninsula of Michigan		Minnesota		Montana		North Dakota		South Dakota		Northwestern Wisconsin	
Houghton	17.0%	Worthington	15.8%	Butte-Silver Bow	12.5%	Wahpeton	13.5%	Huron	16.3%	Merrill	11.1%
Escanaba	16.6%	Albert Lea	12.0%	Bozeman	7.9%	Williston	13.1%	Pierre	11.9%	Eau Claire	8.5%
Sault Ste. Marie	15.6%	Bemidji	11.9%	Missoula	7.8%	Jamestown	12.4%	Yankton	11.9%	Menomonie	8.3%

News and Notes

Coming soon to the Minneapolis Fed: the Center for Indian Country Development

Launching in June 2015

The Federal Reserve Bank of Minneapolis is pleased to announce that it will launch the Center for Indian Country Development (CICD) in June 2015. For the last two decades, the Minneapolis Fed has engaged in community and economic development work in American Indian reservations and other Native American communities, both regionally and nationally. The CICD will deepen and broaden this work, as well as raise the Minneapolis Fed's commitment to and capacity for engaging in these important initiatives. The center's mission is to help self-governing communities of American Indians in the U.S. attain their economic development goals.

The Minneapolis Fed's work in Indian Country so far has focused on promoting access to credit and financial services for low- and moderate-income communities and individuals. By having a broader mission that considers all aspects of economic development in Indian Country, the CICD will expand the Federal Reserve System's partnerships and collaborations with key stakeholders from across the country that are similarly committed to Indian Country economic development. Watch for more information about the center in the July 2015 issue of *Community Dividend*.

Jump$tart honors the Montana Financial Education Coalition

The national Jump$tart Coalition for Personal Financial Literacy (Jump$tart) has named the Montana Financial Education Coalition (MFEC) its 2015 State Coalition of the Year. The honor recognizes MFEC for exemplary efforts in promoting financial literacy, including the development of FREDMontana ("FRED" stands for "Financial Resource Education Database"), a searchable online portal at www.fredmt.org that connects users to financial education resources and service providers.

Jump$tart is a nonprofit organization that works with nearly 150 national entities and 51 affiliated state coalitions to improve the personal financial literacy of students in pre-kindergarten through college. For more information on its work, visit www.jumpstart.org.

CFED scorecard shows many Americans aren't feeling the economic recovery

Stocks are up, unemployment is down, and the housing market has stabilized, but according to CFED's *2015 Assets and Opportunity Scorecard,* millions of Americans are seeing little evidence of post-Great Recession economic recovery. The scorecard is an annual, 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, the Bureau of Labor Statistics, and the Mortgage Bankers Association, to grade and rank all 50 states and the District of Columbia on 67 outcome measures and 69 policy measures related to household finance, employment, housing, health care, and education. Data for the 2015 scorecard were collected in late 2014 and reference outcomes from 2012, 2013, or 2014.

Although it acknowledges a few bright spots, such as gains in college degree attainment and some increases in state minimum wages, the latest scorecard shows that many key measures have stagnated or declined in recent years. For example, average household income in the U.S. has been stuck at $49,808 for three years in a row and the share of jobs that are in low-wage occupations has risen nationwide, from 21 percent in 2012 to 25 percent in 2013. The national homeownership rate fell to a 20-year low of 63.5 percent in 2013, and substantial gaps in homeownership rates between whites and people of color persist. Four of the ten states with the biggest gaps—Minnesota, North Dakota, South Dakota, and Wisconsin—lie wholly or partially in the Ninth Federal Reserve District. The scorecard also shows that nearly half (44 percent) of households in the U.S. lack a basic financial safety net, which CFED defines as having enough savings to cover three months' worth of expenses.

The 2015 scorecard's findings are available at www.assetsandopportunity.org/scorecard, where users can view an interactive map that displays detailed state-by-state outcome measures. The site also offers a summary report of the 2015 scorecard results, titled *Excluded from the Financial Mainstream: How the Economic Recovery Is Bypassing Millions of Americans,* and a wealth of other resources and tools, including an online liquid asset poverty calculator, state data snapshots, and a library of downloadable infographics.

CFED, also 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.

Calendar

2015 South Dakota Indian Business Conference: Expanding Economies in the New Native America

May 18–20, 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. **sdibaonline.org**

2015 Emerge Conference: Insight, Innovation, Inclusion

June 10–12, Austin, Texas

Connect with the ideas and people you need to serve the millions of Americans still struggling to live healthy financial lives. Presented by American Banker and the Center for Financial Services Innovation. **americanbanker.com/conferences/emerge**

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. **clevelandfed.org/2015policysummit**

Opportunity Finance Network Midwest Regional Meeting

June 24, Minneapolis

CDFI (community development financial institution) practitioners are invited to participate in a day of networking, information sharing, and industry updates. Hosted by the Federal Reserve Bank of Minneapolis. E-mail Seth Julyan at sjulyan@ofn.org for more information.

Community Development Society 46th Annual Conference

July 19–22, Lexington, Ky.

Theme: "Creativity and Culture: Community Development Approaches for Strengthening Health, Environment, Economic Vibrancy, Social Justice, and Democracy." Share experiences, research, and strategies with fellow community developers through a vast array of panels, workshops, and sessions. Elements of creative expression will be infused throughout the event to highlight the conference theme. **comm-dev.org/about-us/2015-conference**