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July 2015

Community Dividend

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

ILLUSTRATIONS BY ANN MACARAYAN

Mobility-based housing programs seek to move low-income families to low-poverty neighborhoods

By Jacob Wascalus

When Rita Ytzen, a senior program supervisor at the Minneapolis Public Housing Authority (MPHA), discusses her organization's relatively new initiative to help low-income families with children move to low-poverty areas, she uses words that evoke optimism and fresh starts.

"The hope is that if we can help impoverished people move to areas of greater opportunity, they'll have access to better schools for their children and a safer environment in which to raise their families," she says. "We want to help people who want to help themselves. We want to give them a second chance."

Having the opportunity to live in an area with greater resources is particularly significant considering the sizable body of research that has demonstrated how children can fall behind academically, physically, cognitively, and economically when they live in high-poverty neighborhoods, which frequently have elevated levels of violence, low-performing schools, and low environmental quality.[1] When low-income children move to areas with low poverty rates, however, recent research has found that, depending on the age when the child resettles and the number of years he or she stays in the new surroundings, the economic and educational outcomes can be positive and substantial.

Ytzen hopes to give Minneapolis-based families this chance through the Mobility Program, an initiative announced by MPHA in 2010 that is designed for participants in the federal Section 8 Housing Choice Voucher (HCV) program. The Section 8 HCV program, which is funded by the U.S. Department of Housing and Urban Development (HUD) and administered by housing authorities across the country, provides rental assistance in the form of vouchers that income-qualified recipients use to help cover the costs of

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

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Mobility-based housing programs

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renting market-priced housing from participating landlords. (For more on HCVs, see the sidebar on page 3.) Although one of HUD's long-standing goals for the program is to provide opportunities for individuals and families to move out of high-poverty areas, Section 8 HCV recipients may choose to live in any neighborhood, regardless of its poverty level. In contrast, MPHA's Mobility Program requires families to move to "non-poverty-impacted" areas of the Twin Cities metropolitan region.[2]

The Metropolitan Council, a policymaking body and planning agency for the seven-county region, has announced a similar initiative that will encourage HCV holders to move to a lower-poverty neighborhood. The program will be administered by the Metropolitan Council's Housing and Redevelopment Authority (Metro HRA), an entity that oversees the Section 8 HCV program for much of the metro area. The premise behind the new MPHA and Metro HRA programs is that low-income families, particularly those with children, who move to areas of greater opportunity will have better short- and long-term economic, educational, and health outcomes.

> "We want to make sure that the families we serve have a full choice in terms of where they live. Good education, low crime, jobs—these are qualities of areas of opportunity, and we want to ensure that the families we serve have access to them."
>
> *—Terri Smith, Manager, Metro HRA*

"We want to make sure that the families we serve have a full choice in terms of where they live," says Terri Smith, Metro HRA manager. "Good education, low crime, jobs—these are qualities of areas of opportunity, and we want to ensure that the families we serve have access to them."

Re-examining Moving to Opportunity

One of the more notable efforts to understand and quantify the effect that moving out of high-poverty neighborhoods has on a family's economic, employment, and educational attainment was a HUD-sponsored program called Moving to Opportunity (MTO). Starting in 1994, MTO took place in Baltimore, Boston, Chicago, Los Angeles, and New York, and tracked 4,604 volunteer families for 15 years as they lived in different areas of their respective cities. Enrollment of the families took place until 1998.

To be eligible for MTO, families had to earn less than 50 percent of the median income in their metro area, reside in public housing, and have children under the age of 18. The families were randomly assigned to one of three groups: an experimental group, in which each family received a housing voucher to live, for at least a year, in a census tract with a poverty rate below 10 percent; a Section 8 HCV group, in which each family was given a housing voucher to live anywhere it chose without conditions (but still within the parameters of the HCV program); and a control group, in which each family lived in public housing and was not given a voucher. All of the families participating in the study were required to pay 30 percent of their yearly income toward housing.

The initial results of the study, as described in a November 2011 report, were mixed: While adults who were offered housing vouchers and lived in lower-poverty areas experienced an improvement in mental and physical health, the new surroundings did not have significant effects on the earnings and employment rates of adults or grown children. The initial analysis also found that moving to lower-poverty areas had little effect on the educational outcomes for children and teenagers.[3]

Further analysis, however, has revealed significant positive outcomes for a subset of the MTO families. In their May 2015 paper *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment,* researchers Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz found that children who moved to low-poverty areas when they were younger than 13 not only earned more in annual wages and attended college at a higher rate but also tended to live in lower-poverty neighborhoods as adults and were less likely to become single parents.[4] Linking previously gathered MTO data to newly available federal income tax data, the paper's authors found that children who were younger than 13 when their families used the experimental voucher to move to lower-poverty areas had, by the time they were in their mid-twenties, average annual incomes $3,477, or 31 percent, greater than the average annual wage of those in the control group. Extrapolating from that figure, the authors estimate that moving to a low-poverty area at a young age could increase a child's lifetime earnings by approximately $300,000. Moreover, they found evidence suggesting that the longer a child spends in low-poverty surroundings, especially starting from an early age, the greater the impact. (Conversely, the researchers found negative effects associated with the earnings for children older than 13 at the time of their move; they speculate that the social disruption of a move to a new, unfamiliar neighborhood may be the cause of this outcome.) The authors posit that "providing more Section 8 vouchers . . . may have little effect on children's outcomes, but providing MTO-type restricted vouchers that require families to move to better (e.g., low-poverty) neighborhoods may be quite valuable."

Preferences and constraints

When housing vouchers don't carry a mobility requirement, it appears that only about one-fifth of recipients decide on their own to relocate to low-poverty areas. According to a 2014 report by the Center on Budget and Policy Priorities, HUD administrative data from 2010 and 2011 show that, of the roughly 1 million families with children that used an HCV nationally, 20.2 percent, or about 210,000 families, chose to live in neighborhoods (tracts) with less than a 10 percent poverty rate. About 100,000, or just under 10 percent of HCV-recipient families with children, chose to live in neighborhoods with a poverty rate of at least 40 percent. The median neighborhood poverty rate for all families receiving a voucher was 19.2 percent.[5]

Why aren't more HCV recipients moving to neighborhoods with lower poverty rates? In their 2014 paper "Living Here Has Changed My Whole Perspective: How Escaping Inner-City Poverty Shapes Neighborhood and Housing Choice," researchers Jennifer Darrah and Stefanie DeLuca cite two overarching reasons for the low rate of relocation to low-poverty, higher-opportunity areas: individual preferences and structural constraints.[6] The researchers explain that individual preferences reflect a person's tastes and perceived needs (housing size, perceived school safety and familiarity, etc.), while structural constraints are the legal, societal, or market-based realities that prevent or inhibit a voucher holder from obtaining a housing unit in a desired low-poverty area. Structural constraints can include limited availability of public transportation; discrimination by landlords; scarcity of rental units (including moderately priced ones); and specific administrative policies by public housing authorities (PHAs) that can hinder an HCV recipient from securing housing in a desired area, such as time limits on redeeming a voucher and portability restrictions on using vouchers in areas outside the service boundaries of the issuing PHA.

Despite these factors, HUD requires PHAs to inform new voucher recipients of the benefits associated with areas of low poverty and to improve voucher holders' access to those neighborhoods. The agency stresses that PHAs should learn more about the location of high- and low-poverty areas, recruit owners of rental units in low-poverty areas to participate in the HCV program, and inform and encourage families to consider moving from impoverished communities to low-poverty areas.[7]

A closer look at Twin Cities initiatives

Up and running: MPHA's Mobility Program

Like the MTO program, the Mobility Program in Minneapolis seeks to move families from areas with high poverty rates to areas with lower poverty rates, including areas outside the City of Minneapolis, MPHA's nominal administrative boundary. However, the Mobility Program applies a different poverty-rate threshold. Program participants must move to a neighborhood with a poverty rate lower than 40 percent, which the MPHA defines as "non-poverty-impacted." To be eligible for the program, an HCV program participant (or his or her spouse) must live in a neighborhood with a poverty rate greater than 40 percent; be employed, in a job training program, or enrolled in school; and have children living at home. Families agree, at the risk of voiding their voucher, to live in non-poverty-impacted areas for three years. And rather than having 90–120 days to locate housing and redeem their HCVs, the timeframe during which participants in the regular HCV program in Minneapolis have to use their vouchers (or risk forfeiting the voucher), participants in the Mobility Program have 120–180 days. Since finding housing in an unfamiliar area can be a daunting experience for participants who may lack the resources necessary to locate and secure an appropriate dwelling, MPHA case managers assist Mobility Program participants in the search.

The program also includes pre- and post-move counseling for the families. During the application process, participants take an assessment of their personal and family goals. Does an applicant need a vehicle, for instance, or to obtain a GED? MPHA will link applicants to appropriate information or resources so they can work toward achieving stated goals after they move to their new homes. Ytzen says that the needs

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How HCVs work

The federal government's Department of Housing and Urban Development (HUD) operates three major programs for assisting low-income households in securing housing: public housing, Section 8 Project-Based Rental Assistance, and the Section 8 Housing Choice Voucher (HCV) program. While the former two programs are place-based, in that they are linked to physical structures that qualified individuals and families can reside in, the latter program is people-based. It endows eligible recipients with the monetary means—a voucher—to secure housing in the private market.

Created in the Housing and Community Development Act of 1974, the HCV program is the largest subsidized-housing program operated by the federal government. It provides funding to locally based housing authorities to allocate vouchers to income-eligible residents so they can rent apartments or houses owned by private (i.e., non-governmental) parties. This "free-market" approach empowers voucher recipients to live anywhere within the service area of the housing authority.[1] In general, people receiving these vouchers must pay 30 percent of their adjusted gross income toward rent, a share that affordable housing proponents generally regard as the maximum percentage a household should spend on housing, and the public housing authority (PHA) pays the rest.

Each year, the PHA determines voucher payment standards that reflect rent levels for moderately priced dwellings of different sizes within its boundaries—the reasonable costs of two-, three-, or four-bedroom dwellings, for example. PHAs use these standards, which are between 90 percent and 110 percent of the Fair Market Rents that HUD identifies for an area,[2] to calculate the amount that they will pay to subsidize such a dwelling. After a voucher recipient identifies a unit he or she would like to rent, the administering PHA inspects the dwelling for safety and soundness and determines if the rent the owner has set is reasonable for participation in the voucher program. If the rent is deemed reasonable but still exceeds the payment standard, the voucher recipient may still rent the dwelling but must make up the difference. The most a voucher recipient is allowed to pay toward the rent is 40 percent of his or her adjusted monthly income. In all circumstances, the landlord must also be willing to participate in the voucher program. For landlords, participation requires, at minimum, a biennial property inspection to ensure compliance with federally mandated housing quality standards.

In general, to qualify for a voucher, an applicant's household income cannot exceed 50 percent of the median income for the county or metro region in which he or she chooses to live (although eligibility can include those earning up to 80 percent of median income). PHAs are required by law to provide 75 percent of their vouchers to applicants whose incomes do not exceed 30 percent of the area median income. The area median income, which varies by location, is published annually by HUD.

According to utilization data from 2013 published by the Center for Budget and Policy Priorities, 2.1 million households nationally, or a total of about 5 million people, used Section 8 HCVs. Roughly 19,300 of these households were in the Twin Cities metro region, which comprises the service areas of 11 different PHAs. The Minneapolis Public Housing Authority (MPHA) served approximately 4,700 of these voucher recipients and the Metropolitan Council Housing and Redevelopment Authority (Metro HRA) helped about 6,000. (More recent data from the two entities show that these figures rose in 2015 to approximately 5,000 for MPHA and 6,300 for Metro HRA.) The 11 PHAs in the Twin Cities region paid a total of more than $153 million in 2013 to property owners who participated in the Section 8 HCV program.

[1] Voucher recipients are generally permitted to "port" to areas covered by other housing authorities, but some housing authorities may first require recipients to live within their boundaries for a specified period of time, such as 12 months. To learn more about this option, visit hud.gov.

[2] *Fair Market Rent* is defined as the 40th percentile of rental costs in a specific area.

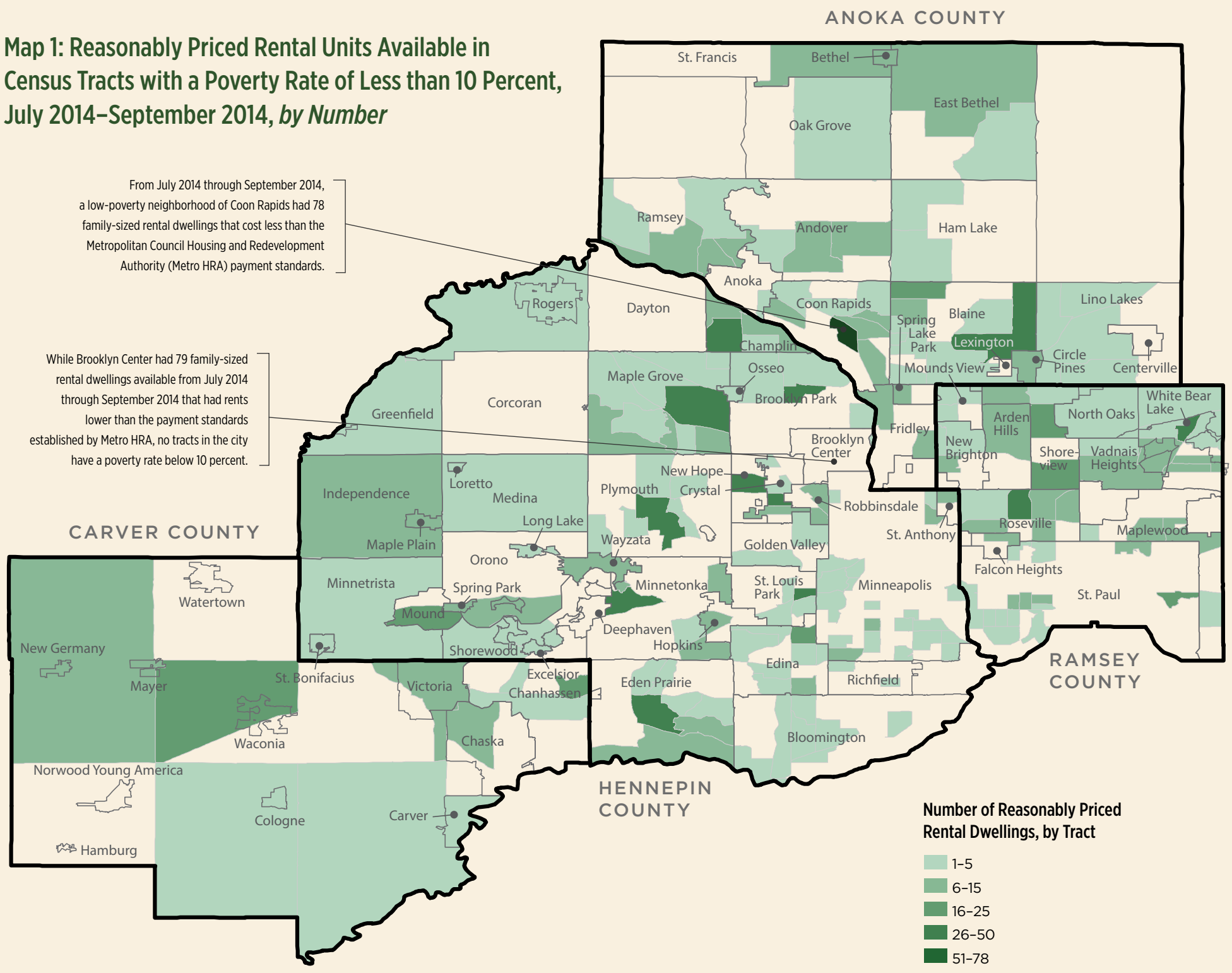
A snapshot of potentially beneficial housing opportunities for housing choice voucher recipients in the Twin Cities

To highlight areas in the Twin Cities metropolitan area that might offer opportunities for Section 8 Housing Choice Voucher recipients to move to a low-poverty environment, the following maps show the supply of family-sized housing units available for rent in July–September 2014 that met the following two conditions:

1. Being located in a census tract with a poverty rate of less than 10 percent. As recent research discussed in our cover article suggests, moving from a high-poverty neighborhood to a low-poverty neighborhood may have positive long-term effects for low-income children.
2. Having a market-based rent price that is *reasonable,* which we define as being less than the payment standards established by the seven housing authorities whose administrative boundaries fall within Anoka, Carver, Hennepin, and Ramsey counties.

Map 1 depicts the supply of reasonably priced rental housing opportunities by number of units, while Map 2 depicts the supply by percentage of units. Place names on the maps represent 75 of the 86 incorporated cities in the four-county area. (Names of the remaining cities have been omitted to enhance the maps' readability.)

Map 1: Reasonably Priced Rental Units Available in Census Tracts with a Poverty Rate of Less than 10 Percent, July 2014–September 2014, *by Number*

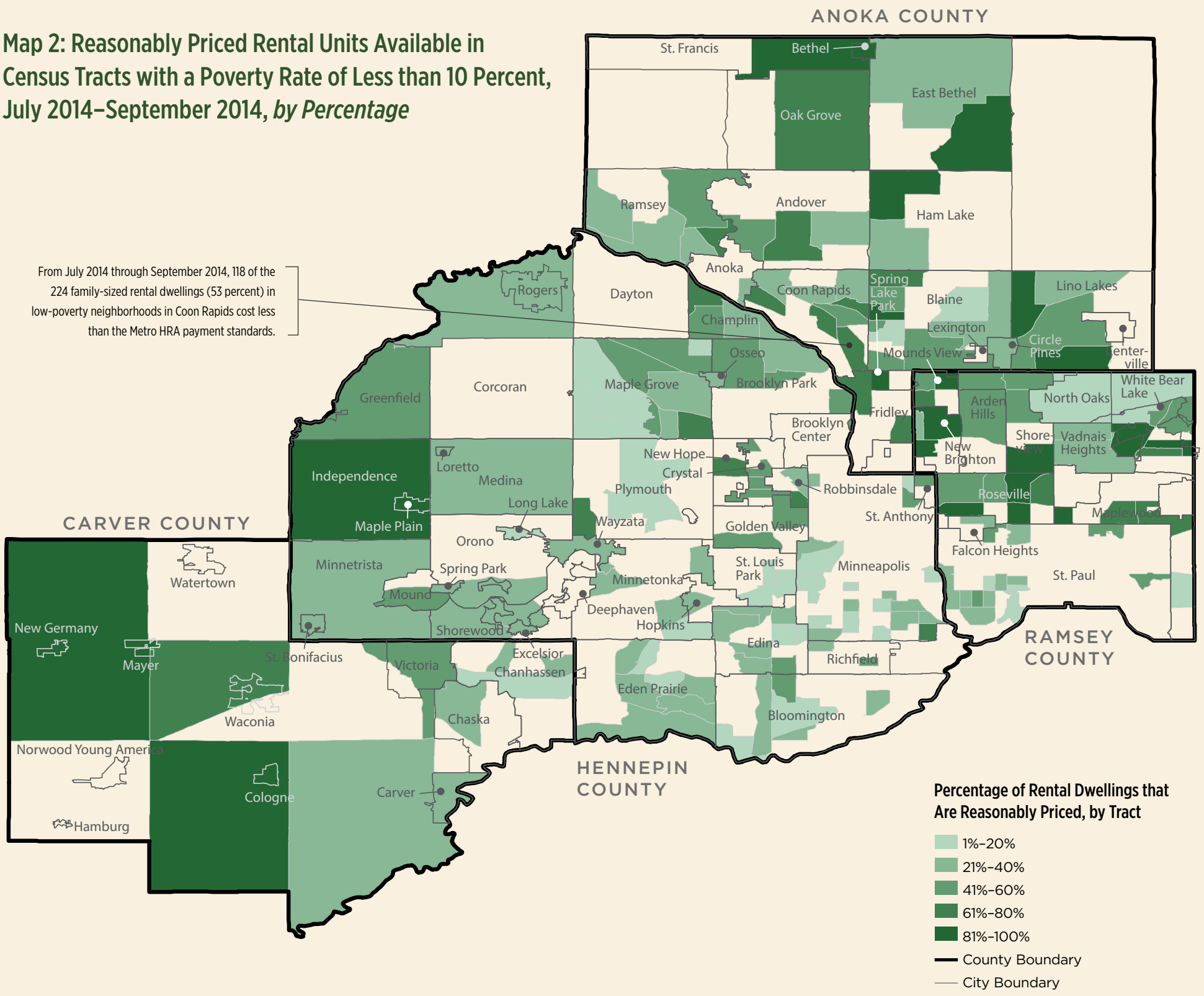


Maps are based on author's calculations of data from the following sources: HousingLink, U.S. Census Bureau 2013 American Community Survey 5-Year Estimates, Minneapolis Public Housing Authority, Metropolitan Council Housing and Redevelopment Authority.

Map methodology

To examine poverty rates and the rental market within the cities located in Anoka, Carver, Hennepin, and Ramsey counties, *Community Dividend* first used 2013 American Community Survey 5-Year estimates to identify the tracts in these geographies that have a poverty rate of less than 10 percent. We then overlaid point-level rental data from HousingLink that included rental price and the number of bedrooms. The rental data represented rental openings from July 1, 2014, through September 30, 2014. Using payment standard information issued by the Metropolitan Council Housing and Redevelopment Authority, Minneapolis Public Housing Authority, and other housing authorities, we then identified the number and percentage of family-sized rental dwellings that cost less than the housing choice voucher payment standard established by different housing authorities. It is important to note that this is a point-in-time analysis but it may nevertheless reflect current market realities. Note: For purposes of this analysis, *family-sized housing units* are defined as any apartment, condo, townhome, duplex, or single-family home that has two, three, or four bedrooms.

Map 2: Reasonably Priced Rental Units Available in Census Tracts with a Poverty Rate of Less than 10 Percent, July 2014–September 2014, *by Percentage*



Mobility-based housing programs

Continued from page 3

of an applicant drive how often MPHA case managers will meet with the voucher holder; at a minimum, the housing authority strives for two consultations per year.

"We're looking for people who have taken these first steps forward in changing their circumstances," she says.

Although MPHA's Mobility Program was announced in 2010, only 25 of the program's allotted 75 slots are currently filled.[8] Ytzen believes that the lengthy design phase of the program, which began after its announcement and took about 18 months, and turnover in three key staff positions are largely responsible for the program's slow uptake.

"But the program is indeed active and enrolling more families," she explains. "In fact, we have seven more in the pipeline now."

In development: Metro HRA's Mobility Counseling Program

Earlier this year, Metro HRA announced the creation of its own program to help Section 8 HCV recipients move out of areas of concentrated poverty and into areas of opportunity. According to Terri Smith, the HRA manager, the Mobility Counseling Program is part of the Metropolitan Council's broader goal of pursuing equity among residents within its seven-county regional boundary.[9]

As of mid-2015, much of the program's details remain in development, including who specifically will be eligible, where they will be encouraged to live, and for how long. But Smith notes that the program will have at least five components: landlord recruitment, participant recruitment, pre-move counseling, housing search assistance, and post-move counseling.

According to Smith, although Metro HRA already actively recruits property owners to participate in the Section 8 HCV program, the agency will expand its outreach efforts by attending and hosting more informational meetings with landlords in more low-poverty areas. It will also develop print and video materials to help explain the HCV program and enlist additional property owners to rent their dwellings to voucher recipients.

As for pre-move counseling, Smith explains that Metro HRA staff will work with participants on budgeting and financial education training, talk to them about how to be successful renters and neighbors, and help each voucher recipient create an action plan to identify the needs of his or her family. The agency will also work with the program participants to place them in a specific community.

"We'll provide tours to different areas and show participants the amenities that are available in each community," she says. "The amount of pre-move counseling really depends on the needs of the family, but we plan to offer a whole gamut of things."

Smith adds that after program participants have moved, Metro HRA's counseling services will be perhaps the more important form of assistance, because of the challenges that some people encounter.

"We want to remain connected to participants and help them with any barriers to success they may be facing in their new neighborhood," she says.

Strategies for success

Counseling is a service that researchers Darrah and DeLuca identify in their 2014 paper as a key strategy for ensuring that HCV recipients settle and continue to reside in low-poverty areas. They conducted scores of interviews with participants in a mobility program operated in the Baltimore area that sought to move more than 2,000 low-income African American families who lived in high-poverty, highly segregated neighborhoods in the City of Baltimore to low-poverty, racially mixed areas in greater Baltimore. The researchers concluded that participation in counseling gradually shifted voucher recipients' preferences toward qualities associated with low-poverty areas, such as better-performing schools and neighborhood quiet.[10]

Of course, even with counseling, the precise formula for using mobility programs to help families achieve better economic, academic, and health outcomes remains unknown. Below what exact rate of poverty does a neighborhood need to be to produce the best results? How can outcomes for teenagers and adults be improved? And what's the best way to encourage more HCV recipients, particularly those with young children, to choose low-poverty neighborhoods? These and other questions about mobility-based housing programs merit further study and analysis. As mobility initiatives such as MPHA's and Metro HRA's start providing more low-income families with opportunities to leave high-poverty areas, researchers and policymakers will have more opportunities to learn the answers. cd

[1] The negative effects of high-poverty neighborhoods are described in greater detail in an October 2014 report published by the Center on Budget and Policy Priorities titled *Creating Opportunity for Children: How Housing Location Can Make a Difference.* To access the report, visit cbpp.org.
[2] Local housing authorities that administer the HCV program can, at their discretion, establish mobility-based programs for voucher recipients. However, HUD does not provide separate, dedicated funding for such programs.
[3] A final impacts evaluation study of HUD's MTO program is available at huduser.org/publications/pdf/MTOFHD_fullreport_v2.pdf.
[4] The paper, which was published by Harvard University and the National Bureau of Economic Research, is available at nber.org/papers/w211156. Further discussion of the researchers' findings can be found at equality-of-opportunity.org.
[5] These data are reported in Appendix Table 1 in the report referenced in footnote 1.
[6] Darrah and DeLuca's paper was published in the *Journal of Policy Analysis and Management,* Volume 33, Issue 2, Spring 2014.
[7] This information is based on Chapter 2 of HUD's *Housing Choice Voucher Program Guidebook,* available at portal.hud.gov.
[8] MPHA initially allotted 240 vouchers for the Mobility Program, but after the agency determined that available resources could not support the counseling needs of that many participants, it reduced the quantity of vouchers to 75.
[9] It is worth nothing that Metro HRA's administrative boundary does not include all areas within the seven-county metropolitan area for which the Metropolitan Council performs regional planning services. Instead, although Metro HRA has by far the largest geographic boundaries of the 11 regional housing agencies, its jurisdictional reach includes only the entirety of Anoka and Carver counties and suburban Hennepin and Ramsey counties. In total, the agency covers 96 of the 182 cities and townships in the region.
[10] See footnote 6.

ONLINE EXTRA

How Do HRAs Serve Their Communities?

Housing and redevelopment agencies, or HRAs, are public entities that work at the local level to address affordable housing shortfalls, blight, and economic development needs. In this video supplement to *Community Dividend,* learn how two HRAs in the Ninth Federal Reserve District are partnering with municipalities and the private sector to create more homes and businesses.

AVAILABLE AT
youtube.com/user/MinneapolisFed

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Minneapolis Fed launches Center for Indian Country Development

By Richard M. Todd

On April 3, Federal Reserve Bank of Minneapolis President Narayana Kocherlakota announced that the bank "will establish a new Center for Indian Country Development … to take the Federal Reserve System's long-standing work with tribal communities to a new level."* The Center for Indian Country Development (CICD) will build off of the Minneapolis Fed's 25-year history of working in Indian Country, which is rooted in the Federal Reserve System's legislative responsibilities to understand and promote economic growth. (For more on this, see the "New center builds on a long tradition" sidebar below.)

The CICD will provide an ongoing home for Indian Country-related experience and knowledge that Minneapolis Fed staff members have acquired. The CICD will also leverage this expertise by operating at a national level through partnerships with tribal organizations, other Reserve Banks, government agencies, nonprofits, financial organizations, and others. As President Kocherlakota stated on April 3, "This reflects our intent that the Center provide energy and coordination to Indian Country development initiatives across the Federal Reserve System and take a lead role in forging Federal Reserve partnerships with other national and regional organizations."

In keeping with the intent that the CICD work across all of Indian Country and its diverse tribal nations, the CICD's official mission statement is deliberately broad: To help self-governing communities of American Indians in the United States attain their economic development goals. To help the center prioritize its work within this broad mission, a Leadership Council of recognized regional and national leaders engaged in diverse aspects of Indian Country development will provide direction. (See below for a list of inaugural council members.) The council is a crucial resource meant to ensure that the center's work is focused, relevant, and based on demonstrated need.

"Indian Country" is a legal term that refers to all self-governing tribal lands in the United States, including American Indian reservations, dependent Indian communities, and Indian allotments, whether restricted or held in trust by the United States.

See 18 U.S.C. § 1151(a)–(c).

The CICD will be staffed and funded mostly from existing personnel and resources. However, its leadership team of two co-directors will include both current and new staff. Sue Woodrow, who has led many of the Minneapolis Fed's Indian Country initiatives since the early 2000s, will serve as one of the co-directors, and Patrice Kunesh will fill the other co-director position. Kunesh, who is of Standing Rock Lakota descent and recently served as deputy under secretary of rural development at the U.S. Department of Agriculture, has a record of strong accomplishments in Indian Country. According to President Kocherlakota, this team "will give the center continuity as well as new energy and insights."

A CICD web site is in development and will launch later this summer in place of the Minneapolis Fed's Indian Country Currents site at minneapolisfed.org/indiancountry. In the interim, interested readers are welcome to direct any questions about the center and its scope to Sue Woodrow at susan.woodrow@mpls.frb.org. cd

* From a speech titled *Persistent Poverty on Indian Reservations: New Perspectives and Responses,* delivered at the Federal Reserve System Community Development Research Conference in Washington, D.C. For the full text, visit minneapolisfed.org/news-and-events/presidents-speeches.

New center builds on a long tradition

The Federal Reserve System features 12 independent Reserve Banks charged with understanding and staying in contact with their territories, or districts. The Minneapolis Fed's charge to know its Ninth Federal Reserve District, which consists of the Upper Peninsula of Michigan, 26 counties in northwestern Wisconsin, and all of Minnesota, North Dakota, South Dakota, and Montana, includes a responsibility for understanding the economies of the 45 federally recognized Indian reservations there.

This responsibility deepened with the passage in 1977 of the Community Reinvestment Act, or CRA. Congress passed the CRA to encourage federally regulated depository institutions to help meet credit needs throughout the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.* As a banking regulator, the Minneapolis Fed began examining banking organizations' compliance with CRA. In addition, Minneapolis and the other Reserve Banks established Community Development Departments to work with commercial banking organizations, community groups, and government agencies to facilitate CRA compliance and the flow of credit and financial services into low- and moderate-income neighborhoods, including many in Ninth District Indian reservations.

By the early 1990s, the increased attention on credit supply in low- to moderate-income communities had made the Minneapolis Fed's Community Development Department aware of the distinctive legal and institutional factors involved in investing on reservations. From that time, the department has engaged in a sustained effort to work with lenders, tribes, nonprofits, and other government agencies to facilitate economic development in Indian Country. Aspects of the effort include:

- Assisting in the development of legal infrastructure to support commerce and lending on reservations;
- Organizing Indian Business Alliances in several states, so that Indian entrepreneurs and others can advocate for good business laws and address financial and other barriers to business development on reservations;
- Supporting research and improved data on tribal economic issues; and
- Working with other Reserve Banks to organize periodic national listening sessions and conferences with tribal leaders, such as a series of events across the country in 2011–2012 that culminated in a national summit meeting at the Federal Reserve's Board of Governors in Washington, D.C., in April 2012.

As a result of its long engagement in Indian Country development issues, staff members in Community Development and several other bank departments have accumulated a core of relevant expertise. The bank's new Center for Indian Country Development will provide a platform for sustaining and leveraging their expertise in support of the Bank's regional and CRA-related responsibilities.

* Regulation BB (Community Reinvestment Act), Code of Federal Regulations, Title 12, §228.11. The text of the regulation is available at gpo.gov.

Center for Indian Country Development Leadership Council

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Jaime Pinkham
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Gerald Sherman
Vice President, Bar K Management

Cris Stainbrook
President, Indian Land Tenure Foundation

Sarah Vogel
Attorney, Sarah Vogel Law

PHOTOS BY JEFF SEGEBRECHT

Above and opposite: Happy car buyers prepare to drive off the lot in vehicles they purchased through the Work-n-Wheels program, which provides zero-interest auto loans to qualified borrowers in southwestern Wisconsin. Similar programs are helping other rural workers purchase commuter vehicles in other parts of the state.

Zero-interest auto loan program puts rural workers behind the wheel

By Jacob Wascalus

For a three-month period back in 2000, Jeff Segebrecht woke up at 6:30 a.m. every weekday, earlier than usual, and voluntarily picked up his clients from their homes and dropped them off at job sites throughout Dodgeville, Wis., a rural town of about 5,000 residents roughly 50 miles west of Madison. At the time, Segebrecht was employed by the State of Wisconsin as a caseworker for a newly created state program that secured employment for welfare recipients. As he lined up jobs for his clients, he found that, in some instances, he needed to drive them to their jobs as well.

"Some of my clients didn't have cars," he explains, "and the town, at least then, didn't have public transportation."

To Segebrecht, the solution was clear: his newly employed clients needed cars of their own. By the time he decided to end his voluntary transportation services, the plan for some type of car-purchase assistance program had germinated in his mind. Later in the year, the state turned his idea into a zero-interest loan program, administered via the Southwestern Wisconsin Workforce Development Board, so income-eligible individuals could purchase personal vehicles. The program took off and, 15 years later, has been replicated in other parts of the state. Altogether, these programs serve not just residents of Iowa County, which is home to Dodgeville, but also residents of 40 of Wisconsin's other 71 counties.

"A lot of people need cars to get them to work, especially people in rural areas," says Segebrecht, who now directs the Work-n-Wheels program from Dodgeville-based Southwestern Wisconsin Community Action Program (SWCAP), a Community Action Agency[1] where he moved the program after leaving his job at the state about a decade ago. "We want to help them buy dependable cars whose cost will fit their financial circumstances."

Rural areas often fall short on public transport

The premise of the Work-n-Wheels program is borne out by data showing a great reliance on automobiles in rural areas. According to an analysis of 2010–2012 American Community Survey data by the National Center for Transit Research, 91.1 percent of rural residents nationwide depended on a car, truck, or van to commute to work, a figure that accounts for solo drivers and carpoolers.[2] For rural residents, the reliance on automobiles in part may be attributable to the relative scarcity of public transportation options where they live. As reflected in the U.S. Census Bureau's 2009 American Housing Survey, which is referenced in the same report, public transit is available to 57 percent of all U.S. residents but only 13 percent of rural residents.

Even if public transportation exists in a rural area, it might not meet potential riders' needs. As Segebrecht points out, "Right now, in Iowa County, our public transportation consists of one shared-ride taxi that runs two days a week, from 7:30 a.m. to 5:00 p.m., and it doesn't leave the city of Dodgeville."

(Consumer-friendly) terms and conditions

SWCAP's Work-n-Wheels program does not sell cars; instead, it uses a revolving loan fund to provide financing to qualified borrowers to buy them.[3] A key feature of this financing is that it comes as a zero-interest loan. This means that people who borrow $5,400, the maximum amount available from the program, will pay back exactly $5,400. According to Segebrecht, profiting by charging interest would undermine the program's mission to help improve borrowers' financial self-sufficiency.

"Many of our customers come to us with bad or even no credit," he says. "They could go out and borrow money at a high interest rate to buy a car, but they'd end up paying a lot more for the vehicle than they could reasonably afford, which wouldn't help their financial situation. We want people to avoid that."

Although the program does not charge interest, it does assess a fee that adds up to approximately 10 percent of the loan—$500 on a $5,000 loan, for example. However, the program uses roughly half of the fee to pay for a portion of the taxes, title, and registration costs associated with a borrower's vehicle purchase. The other half goes into a fund that the program draws on to make zero-interest loans for major car repairs.

With financing in hand, borrowers can then purchase a vehicle from any automobile dealership they choose, but Segebrecht and his colleagues must first approve of the car. The program makes financing contingent on this condition so that borrowers do not end up buying a "lemon" or a vehicle that is, according to Segebrecht, "more car than someone needs." He cites automobiles with features that are desirable but not necessary for a borrower's needs, such as four-wheel drive, or higher-end vehicles whose prices may be inflated because of their aesthetics.

After purchasing the car, the borrower then pays, on average, about $150 a month until the loan is paid off. To qualify for the loan, borrowers must meet several conditions, including having a job and earning 200 percent or less than the federal poverty level. In 2015, for a family of three (one adult and two children), the 200 percent mark is a little over $40,000 a year. Segebrecht notes that most Work-n-Wheels borrowers earn $10 an hour or less, which amounts to less than half the threshold.

A thorough application process

By design, getting a Work-n-Wheels loan is not a quick, same-day process. To be approved for financing, borrowers must first meet several programmatic benchmarks aimed at both uncovering more about their household situations and educating them about personal finances.

The benchmarks include completing a detailed application, which inquires about a prospective borrower's income, receipt of public assistance, driving history, employment history, and personal references; establishing a family development plan, which involves discussing the various needs of an applicant, including housing, daycare, food, and medication; and completing a four-module series of personal financial education sessions, a service offered by University of Wisconsin (UW) Extension. The application approval takes about two weeks. For borrowers who wait for their approval letter before starting the personal finance sessions, the education portion can add another two weeks.

Ruth Schriefer, a family living agent for the Iowa County-based UW Extension office who teaches the financial education classes, describes how she met with Work-n-Wheels staff about a decade ago to determine which aspects of financial education would benefit

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—Jeff Segebrecht, Director, Work-n-Wheels

borrowers the most. The four topics they ultimately settled on were household budgets, crisis spending, banking, and credit.

"Before the borrowers were required to take these classes, some of the same people were returning after a few years to borrow money again," she says. "It turned out that some of the people who borrowed money for a car the first time hadn't learned anything about personal finances, and we realized that the program was acting as a Band-Aid instead of a solution."

Now borrowers have to meet with Extension agents like Schriefer for one-on-one sessions, which take about an hour per subject, to hash out family budgets, plan for unexpected expenses, learn about the different aspects of banking, and discuss what credit is and what the borrower's own credit report says.

This last topic is particularly noteworthy because the Work-n-Wheels program, which as a policy doesn't pull credit scores on prospective borrowers, nevertheless reports to the Credit Builders Alliance the monthly payments that borrowers make.[4] By repaying their loans on time, borrowers who start out with poor credit could have improved credit profiles at the completion of their payment schedules.

Performance and benefits

SWCAP makes 55–60 Work-n-Wheels loans per year, on average, and through 2014 has made a total of 586 loans worth more than $2 million. In addition, it has made 50 repair loans totaling approximately $47,000. The program has had to repossess 44 vehicles since its inception, or 7.5 percent of its loans, and write off a little more than $94,000, or 4.6 percent of total loans. Segebrecht characterizes these numbers as similar to those of retail auto lenders.

Data collected by SWCAP show that Work-n-Wheels car purchases can lead to substantial financial gains for borrowers over time. According to annual employment follow ups the program began conducting with its customers in 2005, families served saw a roughly $5,000 net increase in wages per year from the time of the vehicle purchase to the completion of loan payments. Segebrecht points out that the increased earnings result in savings to the state in the form of lower public assistance payments, increased income tax collection, and more dollars spent in the local economy.

Another benefit from the program: some Work-n-Wheels customers are now helping other rural residents commute to their jobs. A couple of years ago, SWCAP took a poll of past borrowers to determine how many were offering rides to other people to get to work. The response was promising: about 31 percent of the people who participated in the loan program provided carpooling. To Segebrecht, it's a sign that, at the very least, participants take the application process seriously: the very last thing borrowers sign, right before they're approved for a loan, is a statement agreeing to offer rides to people if it is logistically feasible.

"We're helping you," says Segebrecht, "and we want you to help others." cd

Recognition through replication

In 2008, after recognition of the Work-n-Wheels program's success at putting qualified workers into cars grew, Jeff Segebrecht of Southwestern Wisconsin Community Action Program (SWCAP) was asked to launch the program at other Community Action Agencies in different parts of the state. Although some of the subsequently launched programs differ slightly in detail—some might not require a borrower to establish a family development plan, for instance, while others might not report payments to a credit bureau—the key feature is the same: no interest is charged on their loans.

Other Community Action Agencies in Wisconsin that now have zero-interest car loan programs include:

- Couleecap, Westby
- Western Dairyland Equal Opportunity Council, Independence
- NEWCAP, Oconto
- ADVOCAP, Fond du Lac
- CAP Services, Stevens Point
- Community Action Inc., Beloit

Moreover, in 2014, the Dane County Department of Human Services, which serves the county where the City of Madison is located, launched a zero-interest car loan program whose design is an exact replication of SWCAP's program.

Some other organizations—Community Action Agencies and otherwise—in Wisconsin and elsewhere offer consumer-friendly loan programs for car purchases or car repairs. Examples include the Vehicle Repair Program at the Lakes and Pines Community Action Council in Minnesota (lakesandpines.org) and the JumpStart Car program at West Central Wisconsin Community Action Agency (westcap.org).

[1] Community Action Agencies are private and public nonprofit organizations that implement the Community Action Program (CAP), which was established in 1964 with the passage of the federal Economic Opportunity Act. The goal of CAP is to fight poverty at the local level through social services, education, and advocacy.

[2] These figures are presented in a report titled *2014 Rural Transit Fact Book,* available from the National Center for Transit Research at nctr.usf.edu. The report uses U.S. Census Bureau definitions of *urban* and *rural.* According to the report, "'urban' includes urban areas and urban clusters. Urbanized areas have 50,000 or more people and urban clusters have at least 2,500 people but less than 50,000 people, and both areas have a core area with a density of at least 1,000 people per square mile. All other areas are defined as rural."

[3] The loan fund was originally seeded with federal and state grants totaling about $75,000. Periodically, the Work-n-Wheels program requires additional grants to help pay for operations (i.e., staffing) and to offset loan losses.

[4] The Credit Builders Alliance (CBA) is an entity that collects and reports loan performance data from nonprofit organizations that provide lending services. In doing so, the CBA helps low- and moderate-income clients of those nonprofits build credit histories that can enable them to access mainstream financial services. To learn more, visit creditbuildersalliance.org.

Using credit risk scores to understand neighborhood change

By Jacob Wascalus, Michael Williams, and Richard M. Todd

Neighborhoods change. People move in and out, businesses prosper or stall, and the built environment transforms as both populations and enterprises alter the surroundings to meet their needs. By understanding how areas change, and by demonstrating the changes through a multitude of data indicators, policymakers, scholars, community developers, and others who are interested in the growth and direction of a community may better prepare for the future needs of its residents and businesses.

To begin exploring whether credit history data can provide timely indicators of local neighborhood change, the Community Development Department of the Minneapolis Fed examined changes in credit risk scores of 25- to 44-year-old residents of cities and neighborhoods in the Twin Cities metropolitan region over the past decade.[1] A credit risk score indicates how likely a person is to pay back a debt; the higher the score, the more likely the person is to repay. Since the scores are widely used by banks and other institutions to make decisions about whom to lend to, rent to, or hire, demand for up-to-date scores is high. As a result, credit scores are kept up-to-date by their issuers (i.e., the three major credit bureaus: Equifax, TransUnion, and Experian), unlike census statistics and many other sources of neighborhood demographic data. Credit scores also tend to be correlated with income and other aspects of financial strength.[2] As a result, a change in a neighborhood's average credit risk score may serve as a timely indicator of broader neighborhood changes that are not yet apparent in publicly available demographic data.[3] We chose to analyze the 25- to 44-year-old cohort because of its association with people who buy homes for the first time, become parents, and, sometimes, establish roots in a community. Collectively, where these people choose to live can have long-term ramifications on the social, educational, and economic aspects of the communities they live in—on the schools, the tax base, the housing prices, and the retail establishments, to name several.

Using a dataset that contains consumer credit profiles of a 5 percent sample of the U.S. population, we sought to understand how the credit risk scores of 25- to 44-year-olds changed, by both neighborhood and city, between 2005 and 2015. To do this, we compared each area's position in the risk score distribution in 2005 to its position in 2015 (See the sidebar below for more detail on the methodology of our analysis.)

The analysis reveals a considerable amount of change in some areas and little change in others. Viewed at the city level, the biggest swings have occurred in a downward direction: Champlin, Lino Lakes, and Forest Lake, all northern suburbs, experienced the largest relative decline in risk scores among larger cities. Robbinsdale, just west of North Minneapolis, and the southern outer-ring suburb of Savage also saw relatively large declines. On the upswing were the suburbs of Edina, St. Louis Park, Richfield, and Columbia Heights. However, the epicenter of risk score improvement was Minneapolis, which, perhaps not coincidentally, shares a border with the four "upswing" suburbs. (See the table at right for specific findings.) Minneapolis's increase over 2005 levels was the highest of any large city in the area, an especially notable change given its large population base.

Within Minneapolis—the study area's most populous city—the increase in people in the age 25–44 cohort with strong credit histories was notable in neighborhoods near downtown Minneapolis and throughout the city's southern neighborhoods. Northeast Minneapolis also saw considerable increases. Despite this sharp rise for the city as a whole, North Minneapolis experienced little change, aside from decreases in some areas. The same was true in St. Paul, which, as a city, saw little movement.

Do these patterns actually foretell different futures for, say, Minneapolis versus St. Paul, or Columbia Heights versus Champlin? It's too early to say. For one thing, the recent local changes in relative credit scores could reverse, as households relocate to different cities within the metro area or prosper to different degrees within each city. In addition, the idea that increases or decreases in average credit scores reflect more fundamentally important changes in the character of cities and neighborhoods remains untested, as the census and other data needed to more fully assess the degree and permanence of post-Great Recession neighborhood change have not yet been published. Over time, additional data will help us assess the degree to which credit scores can serve as early indicators of neighborhood change. cd

Relative Change in Mean Credit Risk Score in the Twin Cities Area, 2005–2015

Top Five and Bottom Five Cities*

TOP FIVE

City	Change (%)
Minneapolis	5.3
Columbia Heights	5.1
Richfield	4.8
St. Louis Park	4.1
Edina	3.7

BOTTOM FIVE

City	Change (%)
Savage	-5.8
Robbinsdale	-5.8
Forest Lake	-5.8
Lino Lakes	-7.0
Champlin	-8.2

* St. Paul, which is the second-most populous city in our analysis, fell between the two extremes, with a change of -0.8 percent.

[1] We used U.S. Census Bureau-defined "places" to identify cities and census-defined tracts as a proxy for neighborhoods. Typically, tracts have around 4,000 residents.
[2] For example, see page 27 of the Board of Governors of the Federal Reserve System's *Report on the Economic Well-Being of U.S. Households in 2014,* available at federalreserve.gov/econresdata.
[3] Our credit history data are from the Federal Reserve Bank of New York/Equifax Consumer Credit Panel, or CCP. We use the primary CCP panel, which is based on a 5 percent sample of the Equifax credit histories of individuals with a Social Security Number. Within the CCP, the credit score we use is the Equifax Risk Score. For further background and additional details on how we process the data, see minneapolisfed.org/community/community-development/credit/datadocumentation.
[4] For this analysis, large cities are those that have 100 or more risk score observations.

Our methodology: Details of computing the rankings

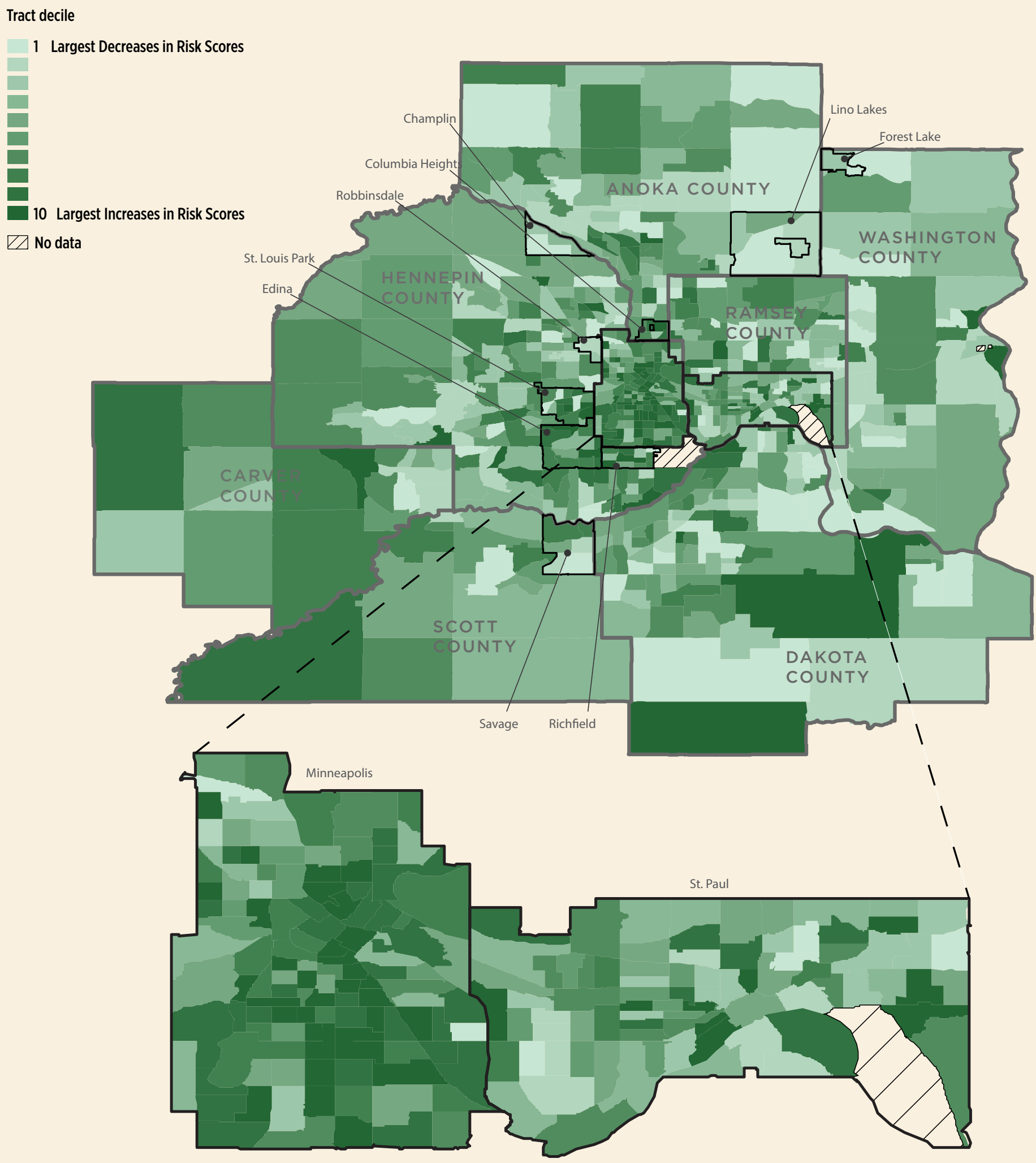
For each census tract in the seven-county core of the Twin Cities metro area, we constructed the change measure as follows:

1. For 2005 and separately for 2015, select credit files from the Federal Reserve Bank of New York/Equifax Consumer Credit Panel primary sample that are located in the seven-county area and have an Equifax Risk Score. Apply the filters for deceased individuals, fragmentary files, etc., as described in the Data Overview at minneapolisfed.org/community/community-development/credit/datadocumentation.
2. Keep only individuals age 25–44.
3. For each year separately, rank the remaining individual files from highest in the seven-county area to lowest in the seven-county area.
4. After this ranking, drop tracts with fewer than 20 observations.
5. For the remaining tracts, and for each year separately, compute the mean rank of the individuals in each tract.
6. For tracts that have a mean rank in both years, compute the change in mean rank.
7. Sort the change in mean rank into 10 bins, from highest (10) to lowest (1).

For each census place in the seven-county core of the Twin Cities metro area, derive the 2005–2015 change measure by following the same first six steps as above, but for places. Then subtract the value for 2005 from the value for 2015. Only places with more than 100 risk score observations are included in the table above.

Change in Mean Credit Risk Score Among 25- to 44-Year-Olds, by Tract, 2005–2015

This map groups absolute changes in a tract's risk score into 10 equally sized bins. A value of 10 was assigned to the 10 percent of tracts with the largest increases and a value of 1 to the 10 percent of tracts with the largest decreases.



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

News and Notes

Pine Ridge, North Minneapolis named Promise Zones

The Obama Administration has named the Pine Ridge Indian Reservation in South Dakota and a large portion of the north side of Minneapolis as two of eight new Promise Zones. The designation refers to high-poverty areas where the federal government partners with local leaders to improve economic and community conditions. To help them further their development goals, Promise Zones receive priority access to federal investments, help from on-the-ground federal staff, and the services of five full-time AmeriCorps VISTA (Volunteers in Service to America) members. The new Promise Zones were selected from a pool of 123 applicants representing 36 states, Puerto Rico, and the District of Columbia.

Pine Ridge and North Minneapolis are the first Promise Zones to be designated in the Ninth Federal Reserve District. The Pine Ridge Promise Zone covers the Oglala Sioux Tribe's whole 3,500-square-mile reservation, which is home to approximately 35,000 people. Thunder Valley Community Development Corporation, a nonprofit based in Porcupine, S.D., will serve as the zone's local lead organization. Stated goals for the Pine Ridge Promise Zone include creating jobs, increasing economic activity and public safety, and developing infrastructure. The North Minneapolis Promise Zone covers 13 census tracts with nearly 40,000 total residents. The City of Minneapolis will serve as the local lead in pursuing goals there that include reducing racial inequities, improving educational outcomes, and reducing serious and violent crime.

The six additional communities designated as Promise Zones this year are Camden, N.J.; Hartford, Conn.; Indianapolis; Sacramento, Calif.; St. Louis; and the Low Country of South Carolina.

Fiddler named Asset Builder Champion

The Center for Global Policy Studies (CGPS), a nonprofit organization dedicated to positive social change, has named Tanya Fiddler an Asset Builder Champion for her work in promoting entrepreneurship and community stability on the Cheyenne River Sioux Reservation in South Dakota. Since 2002, Fiddler has served as the executive director of Four Bands Community Fund, a community development financial institution, or CDFI, based in Eagle Butte, S.D., that supports economic development ventures on the reservation. (A CDFI is a specialized entity that provides loans, investments, training, or other services in underserved or economically distressed areas.) Fiddler also serves as co-chair of the Native CDFI Network and chair of the South Dakota Indian Business Alliance, a statewide network of Native business owners and advocates.

CGPS launched the Asset Builder Champion awards this year to recognize individuals who are advancing the cause of economic security for low-income Americans and communities of color. Fiddler is one of four recipients from around the U.S. who were celebrated at a CGPS gathering in Washington, D.C., in April. Her fellow honorees are Luis V. Gutiérrez, member of the U.S. House of Representatives; Lisa Hasegawa, executive director of the National Coalition for Asian Pacific American Community Development; and john a. powell, director of the Haas Institute for a Fair and Inclusive Society at the University of California at Berkeley.

Treasury awards $3.5 billion in New Markets Tax Credit allocations

The U.S. Department of the Treasury (Treasury) has awarded a total of more than $3.5 billion in New Markets Tax Credit allocation authority to 76 organizations located in 27 different states and the District of Columbia. Three of the allocations, representing $185 million of the total, will go to organizations that are headquartered in the Ninth Federal Reserve District.

The New Markets Tax Credit (NMTC) Program, which is administered by the Treasury's Community Development Financial Institutions (CDFI) Fund, promotes private-sector capital investment in underserved areas by providing federal tax credits to individual or corporate taxpayers who make qualified investments in low-income communities. To qualify for NMTCs, taxpayers must provide their investments through intermediary vehicles known as Community Development Entities, or CDEs. A CDE is a domestic, nonprofit or for-profit corporation or partnership with a primary mission of serving low- and moderate-income persons or communities. The total credit for each investor equals 39 percent of the cost of investment and is claimed over a seven-year period. Since the NMTC Program's founding in 2000, the CDFI Fund has made 912 allocation awards worth a total of $43.5 billion. As of the close of fiscal year 2013, $35.3 billion of the total had been invested in low-income communities.

The 76 awardees were selected from a pool of 263 applicants and received allocations ranging from $15 million to $75 million. The three Ninth District recipients and their allocation amounts are: Dakotas America LLC, Renner, S.D., $65 million; Montana Community Development Corporation, Missoula, Mont., $65 million; and National New Markets Tax Credit Fund, Inc., Minneapolis, $55 million.

Calendar

Rail~Volution 2015: Building Livable Communities with Transit

October 25–28, Dallas

Engage in thoughtful discussions about land use, transportation, and development with change makers and influencers from over 300 communities. **railvolution.org**

Save the date!

2016 National Interagency Community Reinvestment Conference

February 7–10, Los Angeles

This biennial training and networking event will feature innovations in community development policy and practice, Community Reinvestment Act examination training, and community development tours of Los Angeles. Presented by the Federal Deposit Insurance Corporation, the Federal Reserve Bank of San Francisco, the Office of the Comptroller of the Currency, and the U.S. Department of the Treasury's Community Development Financial Institutions Fund. Watch **frbsf.org/community-development/events** for registration details.

Save the date!

2016 Montana Indian Business Alliance Conference

May 17–19, Great Falls, Mont.

A biennial event featuring nationally recognized presenters committed to the growth of strong economies through private-sector Native American business development and entrepreneurship. Watch **mibaonline.org** for registration details.

Grant for First Nations Development Institute will promote food as economic development

First Nations Development Institute (FNDI), a national nonprofit organization that works to improve Native American economies and communities, has received a grant from the Otto Bremer Foundation to strengthen Native control of local food systems in Minnesota. The two-year, $130,000 grant will support the production of local foods in Native communities and the development of new avenues of capital access for Native food-related businesses and entrepreneurs. Dubbed "Moving Forward Food as Economic Development in Native Communities in Minnesota," the project will kick off with a convening of Minnesota-based tribes and Native nonprofits, during which participants will select three organizations to develop pilot models for increasing the capital available for Native food producers. (As of press time, this convening was scheduled for July 8–10 in Prior Lake, Minn.) At the conclusion of the grant period, FNDI will release a report summarizing the models' findings and results.