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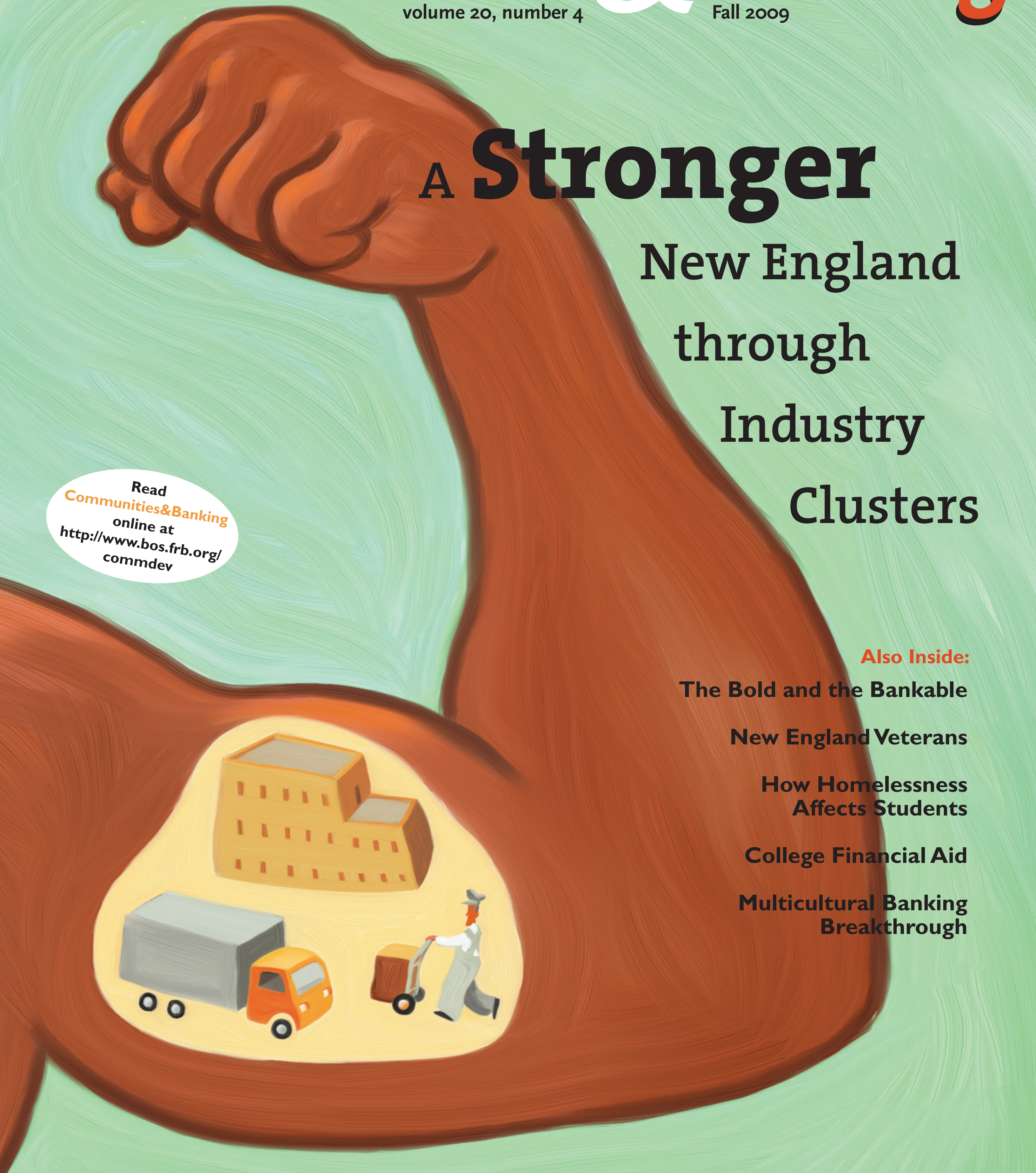

A Stronger New England through Industry Clusters

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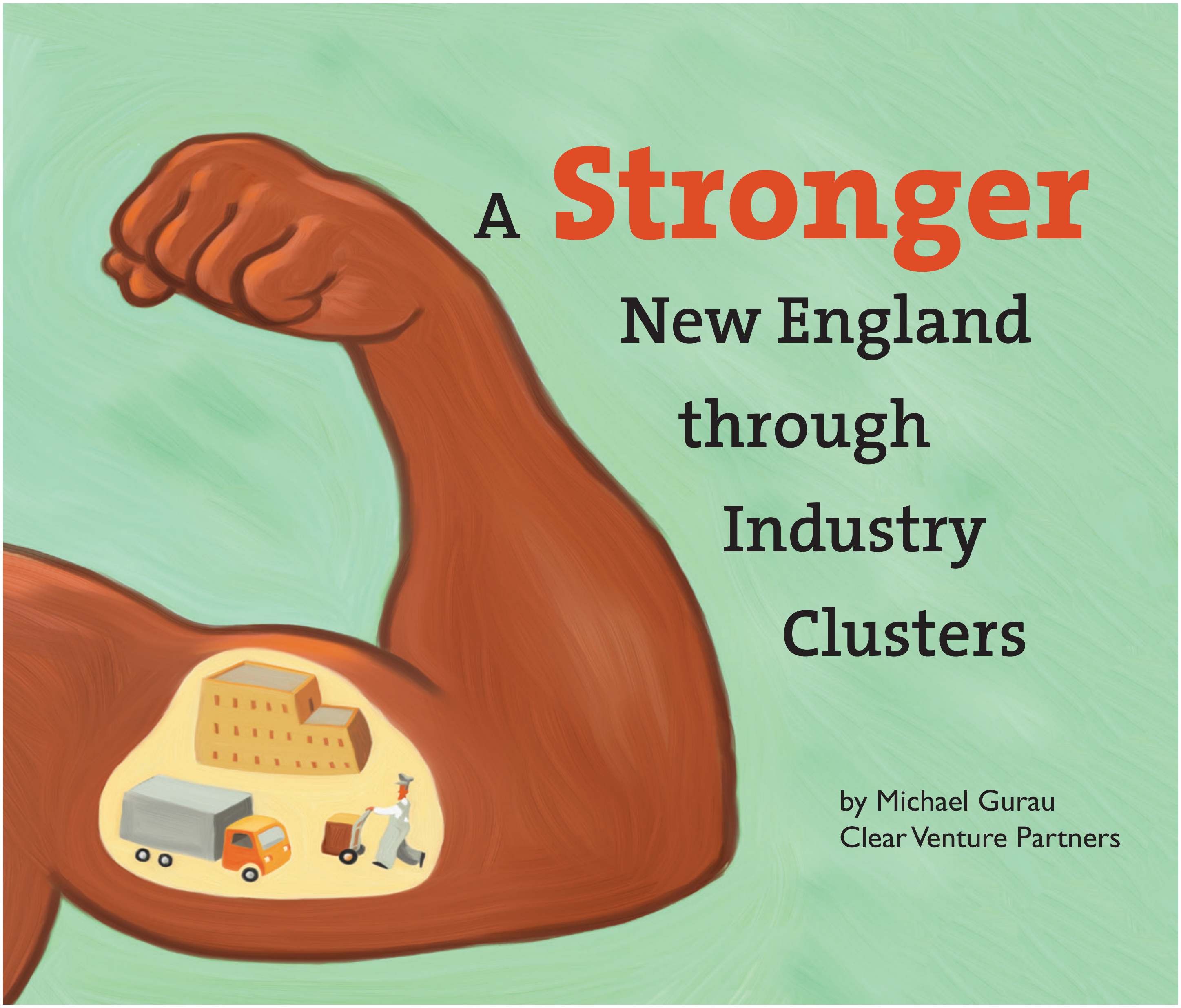

A Stronger New England through Industry Clusters

by Michael Gurau
Clear Venture Partners

States, by definition parochial, focus their economic development efforts within their borders and strive to keep their graduating students and company owners from leaving.

A few New England states, however, have initiatives to invigorate instate economies differently. When it comes to infrastructure sectors like telecom, broadband, transportation, and energy, they recognize that their interests are aligned with neighboring states' interests—and that it can make sense to address economic development distress by applying industry *cluster* strategies in partnership with neighbors.[1] Cluster initiatives can boost innovation; facilitate diversification; generate employment opportunities, higher wages, and productivity; stimulate regional entrepreneurship; and improve regional sustainability.[2]

Introducing Industry Clusters

Clusters come in two primary flavors. With *local clusters*, products and services are traded within local borders. Health-care services, tourism, retail, and transportation are typical. Oklahoma's hospitality, recreation, and tourism cluster and South Carolina's tourism initiative are examples.[3] With *traded clusters*, commerce occurs across local borders. Traded clusters that serve growing and global markets create potential to drive economic development in whole regions. Companies in traded clusters—technology, life sciences, consumer products—often fit the traditional venture capital model and so can be more rapidly developed.

Clusters are characterized by the relative proximity of suppliers, producers, and distributors. Although they are not entirely self-contained ecosystems, they derive considerable power from ease of participation in trade associations, networking events, and cluster-specific meetings. A cluster may be centered on a single city (Hartford: insurance and finance) or may be linked to adjacent cities or counties within a state (North Carolina: Research Triangle Park).[4]

Sometimes clusters span multiple states. The Northwest Food Processors Association (Oregon, Washington, and Idaho) launched a multistate initiative in 2005 out of concern about thin profits, overcapacity, poor return on assets, erosion of margins, and industry consolidation. In another example, officers of metals companies in western Minnesota and eastern North and South Dakota organized the Tri-State Manufacturing Association to promote common interests.[5] Similarly, the Northern Border Regional Commission of Maine, New Hampshire, Vermont, and New York, although characterized as a sector-based initiative rather than a cluster initiative, intends to leverage existing sectors that span all four states, such as agriculture and the creative economy.[6]

Multistate cluster strategies—coupled with states' internally oriented cluster activities—may provide greater growth potential than the state-based model alone. In the current climate, collaboration that can leverage limited federal and state resources makes sense.

New England Clusters

Several New England states have recognized the utility of clusters for economic development. Massachusetts—particularly east of Route 495—is furthest along in activating a cluster-based economy.[7] Worcester, in central Massachusetts, has developed a life sciences cluster to which it has dedicated real estate, incentives, university partnerships, and the like. A cluster outlook also meshes with Vermont's economic development strategy, which embraces such diverse sectors as green technologies and cheese making.[8]

Cluster initiatives can boost innovation; facilitate diversification; generate employment opportunities, higher wages, and productivity; stimulate regional entrepreneurship; and improve regional sustainability.

In Maine, a 2006 state-funded Brookings Institution economic development report included a cluster analysis.[9] Cluster expert and former venture capitalist Karen Gordon Mills was chairing Maine's Council on Jobs and the Economy at that time and worked with public- and private-sector leaders to implement the recommendations. She helped to secure a $15 million federal grant to support the boatbuilding cluster. Additionally, in her affiliation with Maine's CEI Community Ventures (a for-profit subsidiary of Coastal Enterprises Inc.), she helped to catalyze development of a specialty-food cluster.[10]

A Super-Regional Approach

Historically, U.S. cluster initiatives have been conducted with support from an economic development agency at a level no higher than a state.[11] But in the current economy, states might consider the potential of multistate efforts and try to identify cross-border opportunities.

Cities in Connecticut and Massachusetts formed the Hartford-Springfield Economic Partnership in 2000, aiming to "advance projects with regional implications and further the economic progress of the interstate region by capitalizing on historic economic, natural, and cultural ties." Similarly, commuting patterns (say, between Worcester in Massachusetts and Providence via Route 146) could give other economic development agencies ideas for potential cross-border activity beneficial to each side.

With government, the private sector, foundations, and individuals pulling back in varying degrees from funding entrepreneurship and start-ups, multistate partnerships could make scarce resources go further. If two states are developing competencies in clean technologies, why not look at how both could gain, rather than have one "win" at the expense of the other? Instead of competing for every business to locate within their borders, states should appreciate that when a business settles on one side, commuting residents may offer benefits on the other side—property tax revenue and local consumption. Of course, finding ways to ensure that a given cluster provides fairly balanced benefits to all parties is also important.

Although it might seem daunting to

try to coordinate efforts with competitive neighboring states, a super-regional approach would likely be a capital magnet for federal programs and, over time, should make a region more competitive in the global economy. New England is less than the size of California. If New England were to pursue multistate initiatives in addition to in-state initiatives, each state and the region as a whole could benefit more.

Finding the Right Cluster

Whether local or traded, rural or urban, clusters need to be properly researched and activated. Not every region is a Greater Boston with access to core cluster elements such as broadband, a highly trained workforce, and capital.

To find the most suitable model, a region should first evaluate its assets. Monitor Group's report on entrepreneurship development, which defines four cluster models, may be helpful.[12] In the *classic* model, intellectual property gets developed by individuals or a university, then funded by angel investors or venture capitalists. In the *anchor-firm* model, new companies emerge from a larger existing company. The *event-driven* model emerges from a major industrial or economic event that throws people out of work, forcing a search for solutions. The *local-hero* model arises when a local entrepreneur gains national or international prominence and catalyzes an entrepreneurial network and culture.

The U.S. Department of Commerce's Economic Development Administration has long used cluster theory as part of making grants to stimulate economic activity; the new administration also is supportive of regional clusters. Moreover, now that Karen Gordon Mills heads up the U.S. Small Business Administration, clusters may receive more attention in economic initiatives.

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Although it might seem daunting to try to coordinate efforts with competitive neighboring states, a super-regional approach would likely be a capital magnet for federal programs and, over time, should make a region more competitive in the global economy.

Endnotes

[1] The Northern Borders Regional Commission—a Maine, New Hampshire, Vermont, and New York initiative to address economic development malaise in the states' northern counties—is seeking federal funding to address outmigration of young college graduates, the aging population, and ways to replace dying industries.

[2] Clusters are defined as a group of companies, related economic actors, and institutions located near one another and drawing productive advantage from their mutual proximity and connections. See Council on Competitiveness, *Cluster-Based Strategies for Growing State-Based Economies* (National Governors Association: Washington, DC, 2006); and http://www.nga.org/Files/pdf/0702innovationclusters.pdf.

[3] See http://staging.okcommerce.gov/test1/dmdocuments/Hospitality_Recreation_Tourism_Cluster_Report_3006051541.pdf and http://www.scprt.com/our-partners/competitivenessiniative.aspx.

[4] See http://www.rtp.org.

[5] See http://www.tsma.org.

[6] Cluster-based economic development represents a more holistic approach than sector-based development, taking into account the ecosystem of suppliers, trade associations, and universities.

[7] In 1991, Governor Weld created the Council on Economic Growth and Technology, an outcome of Michael Porter's state-funded *The Competitive Advantage of Massachusetts.*

[8] *State of Vermont: Strategic Plan for Economic Development*, http://www.thinkvermont.com/Portals/0/Stategy-doc-booklet2.pdf.

[9] *Charting Maine's Future: An Action Plan for Promoting Sustainable Prosperity and Quality Places* (Washington, DC: Brookings Institution, 2006), http://www.brookings.edu/reports/2006/10cities.aspx.

[10] CEI Community Ventures collaborated with Mills to launch a Food for Thought Forum, which brought together nearly 100 participants interested in mutually advantageous, coordinated efforts. A food industry cluster award was granted by Maine Technology Institute in February 2009, partly as a result of that event.

[11] The U.S. Department of Commerce's Economic Development Administration has helped to fund cluster research. The Obama administration proposed additional funding.

[12] *Path to Prosperity: Promoting Entrepreneurship in the 21st Century*, http://www.compete.monitor.com/App_Themes/MRCCorpSite_v1/DownloadFiles/NED_report_final.pdf.

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Returning Vets *face challenges*

by Amy Wyeth

Generally when Americans return from overseas travel, their greatest challenge is readjusting to a different time zone. But what is it like for soldiers? For them, the challenges, both mental and physical, may be complex. And it is not always clear to them where to find help.

As the country draws down Iraq operations, six years' worth of men and women deployed into combat—some of them several times—are settling back into life in the States. So far there are no firm numbers on exactly how many are returning to New England because discharge papers may get sent to the state from which service members deployed or the state to which they are returning or both. In Massachusetts, the Department of Veterans Services makes an informed guess that about 19,000 soldiers, sailors, and Marines from Iraq and Afghanistan are either back in the Commonwealth or will be soon.

Multiple Concerns

Returning veterans face multiple challenges. Many have permanent physical injuries. Others struggle emotionally. The emotional issues are not just about what they saw in combat but also the painful disconnect with civilian perceptions. Having witnessed the good that U.S. military men and women can do overseas, they feel that only the bad things get discussed among civilians and in the media.

Emotional issues are among the less visible symptoms of war's aftermath. According to a 2008 study by the Virginia-based nonprofit Rand Corporation, at least 230,000 of the 1.64 million U.S. troops deployed overseas are dealing with injuries such as traumatic brain injury, depression, or posttraumatic stress disorder (PTSD). In Rand's "Invisible Wounds of War" study, based on a survey of 1,965 War on Terror veterans nationwide, 14 percent screened positive for major depression, 19 percent for probable traumatic brain injury, and 14 percent for PTSD. The latter can manifest itself in episodes like traffic incidents, domestic violence, broken relationships, or a struggle to stay employed.

The Massachusetts Department of Veterans' Services has developed programs to reach potentially vulnerable veterans. One is SAVE (Statewide Advocacy for Veterans' Empowerment), which helps veterans get their benefits and works to prevent suicide. SAVE also offers training for first-responders to incidents that might appear to be straightforward law-breaking but, if a traumatized veteran is involved, could be more complicated.

Outreach coordinator Sam Hamm, who developed the training, says of motor vehicle incidents, "In Iraq, you drive very aggressively and you don't stop. You are always on the lookout for improvised explosive devices. Coming back to the U.S., that may translate to reckless driving." One recent returnee, he says, drove through a Massachusetts Turnpike Fast Lane toll booth without the transponder that bills an account. "He wasn't trying to scam the system; he was … afraid of stopping."

Many veterans also have a simple but often unmet need: someone to talk to who understands their experience. Consider Dominick Sondrini, a veteran from Dalton, Massachusetts, who has had numerous family members in the military. He entered Marine officer training six months out of college and did two Iraq tours between 2006 and 2008. He says now, "The hardest thing for me is that I got out … and most of my friends are still there."

Admitting Need

To stay involved, Sondrini got a job at Soldier On, a private, nonprofit organization housed on the grounds of the Veterans Administration hospital in Leeds, Massachusetts. Soldier On serves 250 veterans of all wars (including approximately 30 men and 10 women from Iraq and Afghanistan) who might otherwise be homeless.

Sondrini manages 42 cases. One client is Army veteran Dominic T. Dominic T. says he saw the Army as an escape from his uncle's construction business, which didn't click for him even though it paid better than the military. When he signed up in March 2003, the possibility of his actually fighting a war seemed remote.

"I thought, 'What are the odds of me, Dominic from Revere, going to Iraq?' " exclaims Dominic T., now 27. Six months later he was facing mortar attacks. His new and unanticipated experiences ranged from quirky (camel spiders "are fast and they jump") to terrifying (climbing out of a fighting vehicle in Al-Qaeda-controlled Tal'Afar not knowing what was there).

Dominic T. had two deployments in Iraq. Along the way, he started to display posttraumatic stress symptoms, including being unable to sleep and jumping in fear at loud noises. He couldn't get certain memories out of his head, like entering Tal'Afar in the tank-like vehicle that prevented him from seeing what was outside, and the death of his 21-year-old lieutenant. The stresses piled up. Dominic T. knew enough to seek out a military psychologist, but he traveled to a neighboring base so it wouldn't be known.

"If you go for any kind of mental health assistance, you risk your military career," and many soldiers resist it, says Soldier On director Jack Downing.

Soldier On staff believe returning veterans should have monetary "carrots" encouraging them to contact a stateside mental health agency upon returning. "They should get $1,000 loaded on a card. By simply checking in with a [local mental health professional], you'd get $250. The second time, you'd get $250 more, and the third, you'd get $500," Downing says. That way, veterans would, without any stigma, get to know professionals they could call if they need help. "Merely checking in doesn't mean you have a disorder."

In Dominic T.'s case, when he returned home in 2006, he thought his life was returning to normal as he started a job with the state's Department of Workforce Development and attended classes at Salem State College. But the stress was relentless, to the point of his taking heroin. "I didn't feel guilty," he recalls. "I could eat and I could sleep." But his job and home life suffered, so eventually he checked himself into a Veterans Administration hospital. He discovered Soldier On in April 2008 and is making progress.

Veterans Helping Veterans

Part of the readjustment involves finding a job or reacclimating to one that a former employer has kept open. According to Carl Waal, veterans program manager for the Massachusetts Department of Labor and Workforce Development's Division of Career Services, veterans have some advantage when they're seeking work, even in today's economy. At the state's Career Centers, one officer is assigned specifically

Returning veterans face multiple challenges. Many have permanent physical injuries. Others struggle emotionally. The emotional issues are not just about what they saw in combat but also the painful disconnect with civilian perceptions.

to help veterans. (See "Assistance for New England Veterans.")

"It is much easier for a veteran to get a job than a nonvet," says Waal, a Vietnam-era veteran. That's because government employers, hiring managers in civil service such as fire or police—and any business or university that gets government grants or contracts—must give veterans preference if they meet the job's basic qualifications.

"What we try to do is fast-track them toward getting a license or certification they might need, or making sure they get to the right source," Waal says. About 12,000 Massachusetts veterans of all wars make use of the Career Centers annually.

However, some veterans need more support before feeling ready to work. Fortunately, the ones from Iraq and Afghanistan are talking more about their experiences than veterans of past wars, and that bodes well for their eventual readjustment. As Hamm says, "It's more accepted now."

SAVE's family outreach coordinator, Cayenne Isaksen, adds, "Shell-shock discussions used to be held only in military and veterans' circles. Today, people are simply talking about it more." And moving on.

Amy Wyeth *is a freelance banking and finance writer, based in Arlington, Massachusetts.*

Assistance for New England Veterans: A Sampling

Give an Hour is a network of mental health professionals who donate an hour each week to help a veteran or family member affected by the Iraq or Afghanistan conflicts, www.giveanhour.org.

Veteran Victory Farm, Fitzwilliam, New Hampshire, is an organic farm for homeless veterans. Founder Leslie Lightfoot has established several related facilities, including a veterans' hospice, http://veteranhomestead.org.

Acupuncturists Without Borders/Veterans Community Acupuncture Project offers free acupuncture to Iraq and Afghanistan veterans and their families, www.acuwithoutborders.org.

SAVE focuses on preventing suicide and helping Massachusetts veterans get their benefits. E-mail save@massmail.state.ma.us.

Massachusetts benefits include tuition waivers at state colleges and universities on a space-available basis; partial property tax exemptions for disabled veterans and spouses; public housing preference for veterans, spouses, and certain other relatives displaced from other housing.

Vet Centers offer free confidential readjustment counseling and services to veterans who served in a combat zone and to family members, www.vetcenter.va.gov.

American Red Cross provides "Coping with Deployments: Psychological First Aid for Military Families." The free course, currently offered in New Hampshire, will soon to be available elsewhere in New England, http://nashua.redcross.org.

Northeastern University offers a new "Yellow Ribbon" program to help post-9/11 veterans attend the college at little-to-no cost, http://www.northeastern.edu/veterans. Twenty-three Boston-area colleges are participating in a federal matching program for Iraq and Afghanistan veterans that covers up to $46,000.

Patriot Express Loan offers to veterans and other members of the military community business loans of up to $500,000 through the federal Small Business Administration's network at 2.25 percent to 4.75 percent rates, www.sba.gov/patriotexpress.

Photograph: Courtesy of Dominick Sondrini

Marine Dominick Sondrini (right), now a case manager at Soldier On in Leeds, Massachusetts, is shown in Iraq with a local police officer.

Enabling Good Housing Decisions

by Waheed Hussain
The Wharton School

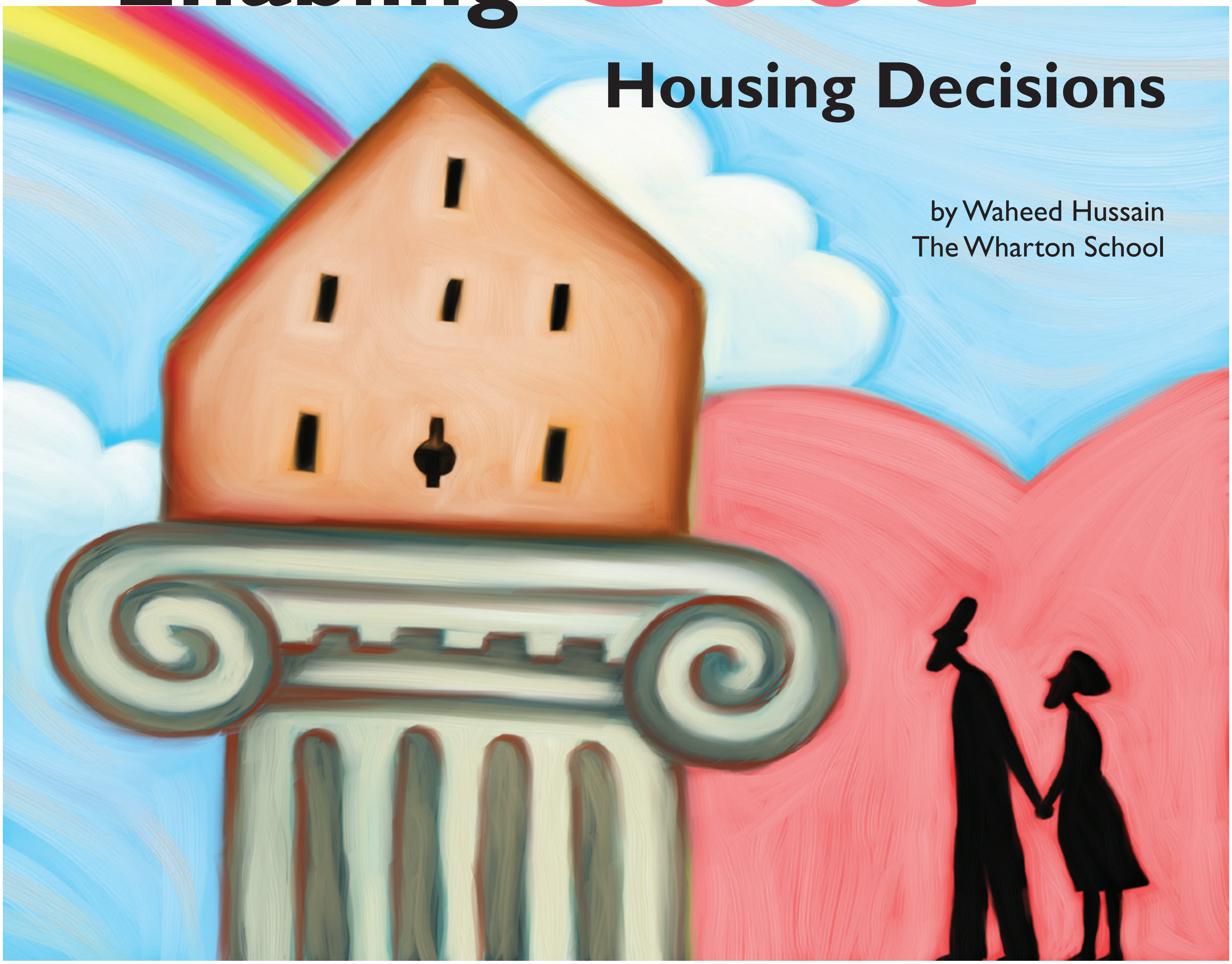


Illustration: Kirk Lyttle

In 2005, at the height of the housing bubble, a McDonald's worker in Maryland making $35,000 a year took out a $500,000 loan to buy a house.[1] This is just one example of the kind of financial decision making that contributed to the current crisis.

It is not possible to address problems with the way people buy homes without first understanding the personal aspects of their decision.

Borrowers sometimes make bad decisions, but it is important not to forget how hard mortgage decisions are. Borrowers are typically not like bankers and financiers, who are experienced in assessing risks and making profitable contracts. For the average borrower, the mortgage contract is about making a home for himself and his family. It belongs to the world of emotional bonds and social aspirations. We seriously underestimate the challenges that borrowers face when we think of their decisions as narrowly financial ones. To promote better decision making, it is necessary to understand the borrower better.

The Personal Dimension

Buying a home often requires people to reconcile themselves to certain aspects of their lives. A person may like her job, but she may also like the fact that she could leave it if she wanted to do something else. Once she takes on a large financial commitment, her options will be constrained. So for many people, buying a house requires that they admit to themselves that they are not going to join the Peace Corps any time soon.

Marriage is also a commitment but not necessarily one with financial consequences. Buying a house together, however, means that you can no longer leave the relationship without serious repercussions.[2]

Another personal challenge stems from the fact that buying a house involves longer-term plans. One of the most important considerations is children. The choice between a one-bedroom condo or a six-bedroom country house is not just about living modestly or lavishly; it is also implicitly about whether children will figure into one's future, and if so, how many. In the United States, home-buying decisions involve not only the number of children a person will have, but also her aspirations for them.

Unlike most other members of the OECD (Organisation for Economic Co-operation and Development), an international partnership of nations, the United States ties school funding to local property taxes. So the decision about where to live is also an important decision about the schools that children will attend. Heading to the right neighborhood might mean better schools and a brighter future. The wrong neighborhood may mean an uphill battle.

A house is, intentionally or unintentionally, a public declaration of class position and social status. People often want to live in certain neighborhoods or certain parts of the country because they want others to recognize them as successful professionals or members of the "creative class" or some other important status group. Some people just want to move to escape the stigma attached to their current address.[3]

Perhaps the most difficult personal challenge in buying a home is managing the psychological need for security and wholeness. Interviews in marketing research often reveal how deeply "home" resonates:

> My first memory of home was my mother's picking me up from the bus stop after my first day at school. I was very nervous about going to kindergarten and even though that first day turned out better than I expected, I was still so glad to see her waiting for me when I got back. We went home, had a snack together, and talked about the day. From then on, we did that every day until I went to high school. *—a 24-year-old woman.*[4]

We need a place to call home because we need a place to perform the rituals that eventually give us a sense of psychological integration and wholeness. And we keep returning home—for the holidays, after a death in the family, after a hard day at work—because it is a place where we recover ourselves, a platform from which to launch and relaunch ourselves into the world.

It is not possible to adequately address problems with the way people buy homes without first understanding the personal aspects of their decision.

The Financial Dimension

Layered on top of the personal dimension of homebuying is the financial dimension, which introduces additional challenges.

How does one translate personal aspirations into dollar figures? Living in a better school district costs money. But how exactly can one put a price tag on that? How to compare the marginal improvement in a child's future with the marginal increase in a monthly mortgage payment? How much should a person making $35,000 a year and living in an area with a high crime rate be willing to spend to give a child safer surroundings? There are actually no good answers to such questions because the values involved are so different that they cannot be sensibly weighed against each other.

Another major challenge is determining budget constraints. What exactly is affordable? That is not easy question to answer. One reason is that what one can afford depends on what one will earn, and what one will earn depends on a range of factors difficult to predict, including health, the supply of workers with the same skills, and the overall prospects for the economy. What one can afford also depends on the housing market itself. Are prices likely to rise? Is the market inflated or undervalued? The average person would find that difficult to assess.

In recent years, the question of what one can afford has become even more difficult because of the proliferation of financing options: different term lengths, interest rates, and fees; fixed-rates versus adjustable-rate mortgages; interest-only loans; teaser rates; and so on. Assessing the options requires a more sophisticated grasp of finance than most consumers possess.

Using Choice Architecture

Mortgage decisions are difficult for both personal and financial reasons. Even under normal conditions—without a housing bubble and sales pressures—it is unsurprising that people struggle with these decisions and some make big mistakes. Given how serious the consequences can be, society has a moral responsibility to take reasonable measures to make the decision-making process more manageable.

One approach would be to engage in what economist Richard Thaler and legal scholar Cass Sunstein call *choice architecture*.[5] The idea is to structure the menu of alternatives presented to borrowers so as to point them toward a good decision. For example, legislation might be designed to present homebuyers with a 30-year fixed mortgage as the default borrowing arrangement. Banks could still compete for customers by offering lower fees and interest rates. And more-sophisticated borrowers or those juggling fewer pressures could opt out of the default arrangement and seek more-complex financial arrangements with somewhat more risk. The benefit would be to ease the burden on homebuyers, already struggling with the personal aspects of their decision, by steering them in the direction of a reasonably good financial alternative.

Community groups also can improve the situation through choice architecture. An organization that serves an ethnic or religious community has a certain insight into the shared needs of its members. Using that insight, the organization can simplify the market's multiplicity of choices into "smart lists" of alternatives that would serve the needs of most of their clients reasonably well.

Consider the financial aspect of homebuying. Even if the government did not adopt a policy presenting the 30-year fixed mortgage as the default option, a community group could present its clients with a smart list comparing the rates and fees offered by local banks on this type of loan. The message would be that although these are not the only options, they are the sorts of alternatives that have served clients well in the past.

Similarly, an organization could formulate smart lists that simplify the personal aspect of homebuying. If the community group knows that its members tend to have certain transportation needs or religious commitments, it can gather lists of housing options near public transportation or religious institutions when homes come on the market. Essentially, the community group can act as a consumer cooperative, using its resources and expertise to find and present alternatives to its members.

A mortgage is an important financial transaction, but most people enter the mortgage market without the financial sophistication of a banker. Choice architecture and smart lists, because they take into account both the personal and financial challenges underlying the mortgage decision, can help make mortgage lending a little safer for everyone.

Waheed Hussain *is an assistant professor in the department of legal studies and business ethics at the University of Pennsylvania's Wharton School in Philadelphia.*

Endnotes

[1] A. Klein and Z. Goldfarb, "The Bubble," *The Washington Post*, June 15, 2008, A01.

[2] "Breaking Up Is Harder To Do After Housing Fall," *The New York Times*, December 30, 2008, A01.

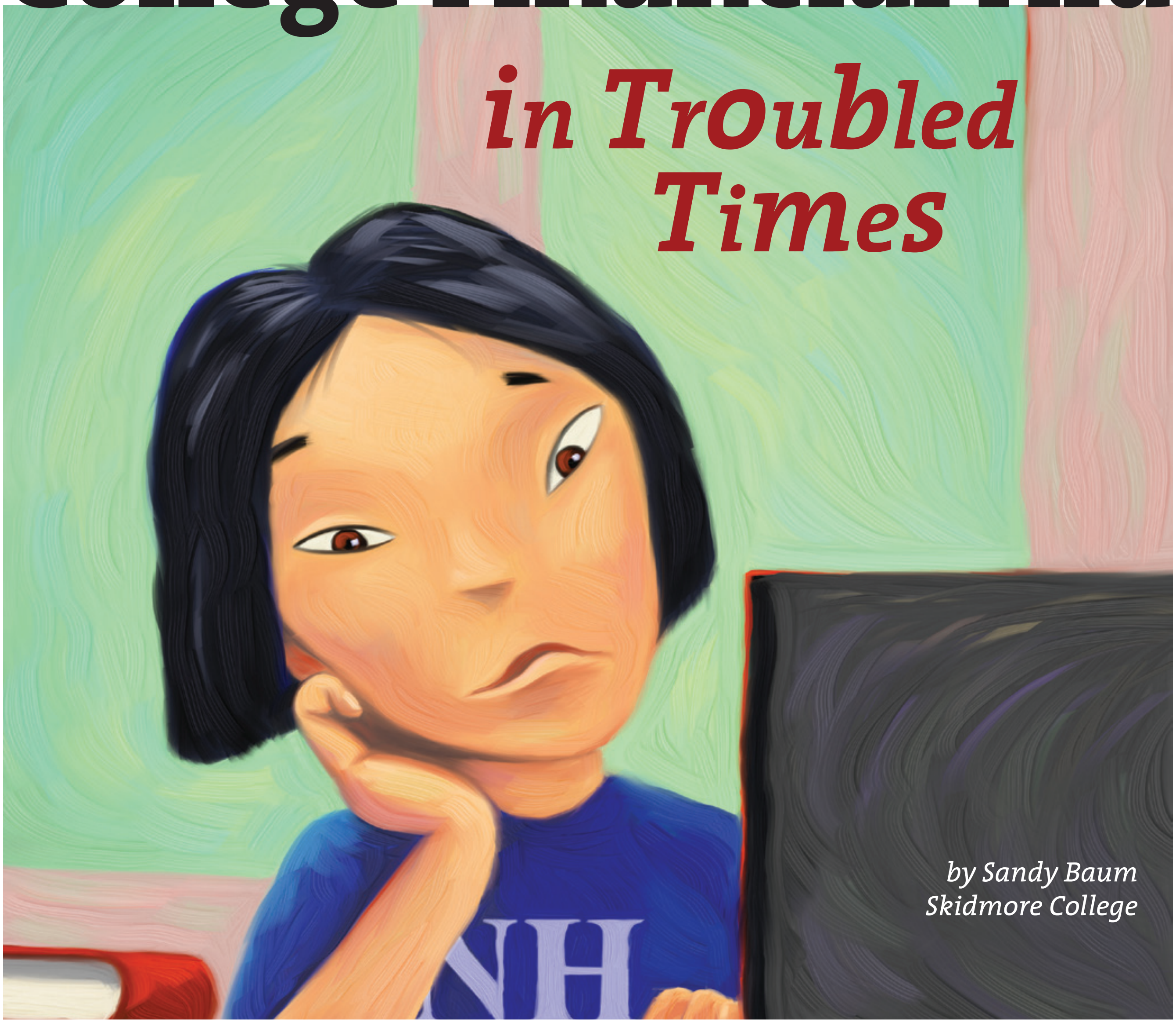
[3] See Richard Sennet, "Memories of Cabrini," *Respect in a World of Inequality* (New York: Norton, 2003).

[4] See Clotaire Rapaille, *The Culture Code* (New York: Broadway Books, 2006), 97.

[5] See Richard Thaler and Cass Sunstein, *Nudge* (New York: Penguin, 2008).

One approach would be to structure the menu of alternatives presented to borrowers so as to point them toward a good decision.

College Financial Aid in Troubled Times



by Sandy Baum
Skidmore College

Illustration: Kirk Lyttle

In the current economic environment,

even routine expenditures are a challenge for increasing numbers of families. As credit has tightened, consumers have postponed major purchases. The price of big-ticket items such as housing, automobiles, and college often appears overwhelming.

Like consumer durables, college is an investment that pays off over time. But whereas an old car or refrigerator can be made to last a bit longer and buying a new residence can wait, postponing college means facing a bleak labor market with minimal skills and delaying the earnings boost that a postsecondary education can provide. That is why college enrollments generally increase in weak economies despite anxiety about costs.

Facts on Costs

How can low- and moderate-income families meet the challenge of providing educational opportunities for themselves and their children in difficult times? Is college really as expensive as the headlines say? Are students drowning in debt?

Higher education is a unique purchase, and the available methods of financing are different from any others. The system is so complex that, for many, straightforward information may be the most important factor in paying for college.

Tuition

About 4,300 postsecondary institutions exist in the United States, with a wide range of prices. The average tuition and fees for the 2008-2009 academic year for in-state students at public four-year colleges amounted to $6,585. Doctorate-granting universities charged an average $7,307, compared with $5,604 for baccalaureate colleges. In New England, the $8,602 average price for four-year public institutions was significantly higher than the national average, and two-year public tuition and fees averaged $3,698 annually, compared with $2,402 nationwide. Within the region, Vermont had the highest cost: its public four-year institutions charged an average of $11,341. Rhode Island's charged an average of $7,722. The point is, students may choose among institutions with a wide range of published prices—and financial aid often cuts the prices significantly. Final prices are virtually impossible for an individual student to predict.

Living Arrangements

Tuition, however, is not the whole story. Whether students enroll in public or private institutions, in two-year or four-year colleges, in-state or out-of-state, they must decide about such matters as where to live and part-time or full-time enrollment. For public college students who do not live at home, costs for housing, food, and clothing are likely to be significantly higher than tuition and fees. So even if college were free, many students who are unemployed or working only part-time would face financial barriers. And working full-time often means struggling academically.

Stated vs. Actual Cost

Potential students should understand that most enrollees do not pay the published price. Most receive grant aid from the federal government, from state governments, and/or from the colleges and universities themselves. Scholarships from private organizations are also available. As one low-income student realized in her sophomore year, "I didn't know how much help is out there. I thought only the smartest people or the ones who speak good English get money. I learned you should just try. There's money that no one applies for." The first step in applying for most forms of student aid is completing the Free Application for Federal Student Aid (FAFSA).

Types of Financial Aid

To help students navigate the diverse array of options, it is useful to categorize financial aid both by type and by source. (See "Financial Aid for First-Time, Full-Time Students, 2006 -2007.")

About three-quarters of beginning full-time students receive some form of financial aid. More than one-third receive grants from the federal government averaging over $3,000. These grants go almost exclusively to low- and moderate-income students. About one-third of the students in public four-year colleges and almost three-quarters of those in private, nonprofit four-year colleges receive grants from their institutions. At private colleges, the grants averaged almost $11,000 in 2006 to 2007 and grow larger every year. Fewer than half of all first-time, full-time students borrow each year, although a larger number borrow at some point in their college careers.

Grant aid is the most helpful, since it is "free" money. Tax credits and deductions don't have to be repaid either, but they are not available in time to pay the bills. Education loans provide necessary liquidity and may carry sizeable subsidies, but they allow students only to postpone payment. A rela-

Financial Aid for First-Time, Full-Time Students, 2006-2007

Average amounts and percent of students receiving

	Total	Public		Private nonprofit	For-profit		
		4-year	2-year	4-year	4-year	2-year	< 2-year
Any financial aid	73.30%	75.50%	61.20%	85.30%	55.40%	87.40%	81.80%
Federal grants	35.50%	26.60%	37.40%	25.80%	32.50%	61.30%	64.90%
	$3,076	$3,365	$2,801	$3,728	$2,608	$2,948	$2,868
State/local grants	27.10%	36.70%	32.10%	30.40%	5.70%	12.10%	3.10%
	$2,510	$2,848	$1,385	$3,329	$2,622	$2,360	$2,604
Institutional grants	29.00%	34.20%	11.30%	74.40%	8.40%	7.70%	7.50%
	$6,423	$3,759	$1,301	$10,797	$1,878	$1,504	$384
Loans to students	45.10%	43.80%	18.80%	59.40%	52%	75.10%	66.20%
	$5,084	$4,433	$2,889	$5,558	$6,989	$6,190	$5,220

Source: National Center for Education Statistics, Enrollment in Postsecondary Institutions Fall 2007, Graduation Rates 2001 and 2004 Cohorts, and Financial Statistics Fiscal Year 2007.

tively small number of students also receive work-study, which involves a job with part of the wages paid by government.

Another distinction is between need-based aid and aid distributed without regard to financial circumstances. Most grants are need-based, meaning that aid depends on student and parent financial circumstances, with the price of the school sometimes a factor. But many dollars from states and colleges are based on criteria such as academic credentials, athletic skill, and the like. Although low- and moderate-income students frequently benefit from non-need-based aid, it goes disproportionately to more affluent students. Federal Pell Grants, state need-based grants, and need-based institutional grants are the best opportunity for low- and mo derate-income students. And sometimes the highest-price institutions have the most generous need-based programs. At Harvard, for example, close to 60 percent of students receive need-based scholarships, with the average total student aid package in 2009 to 2010 expected as of this writing to be more than $40,000, about 75 percent of the total price.

About one-third of U.S. bachelor's degree recipients graduate without education debt, but most low- and moderate-income students borrow as part of their strategy for financing college. Unfortunately, scary headlines about students struggling with debt may generate fear about any long-term financial commitment. Students need to understand that borrowing to finance an investment in themselves makes good sense.

Potential students should understand that most enrollees do not pay the published price. Most receive grant aid from the federal government, from state governments, or from the colleges and universities themselves.

Consider that among the approximately two-thirds of four-year degree recipients who graduated with debt, the average debt was about $23,000 in 2007. For the typical college graduate, repaying $23,000 over time is manageable. The borrowers in the headlines are the minority whose educational investment does not pay off as well as anticipated—or those who borrow considerably more than $23,000.

It is ill-advised to discourage anyone from borrowing responsibly to invest in the most important lifetime opportunity. No one would expect to start a business without borrowing and paying off the debt gradually with the proceeds of the business. No one pays cash for a house, and few pay cash for a car. People assume they will pay these off over time. A college education has a better financial return than almost any other investment—not to mention benefits like life satisfaction, personal development, and health.

Fortunately, as of July 1, 2009, a federal Income Based Repayment plan ensures that students will not have to devote more than 15 percent of their discretionary income to federal student loan repayment. However, the new protection applies only to federal loans—not private loans—and borrowing should be in moderation. Grants are better. Also, students should compare the amounts they will pay at different schools because each school has its own aid policies, and the amounts are not necessarily correlated with published prices.

Options

Certainly low- and moderate-income students would be better off with a simpler student aid system, one better targeted at those with the most-limited resources. To address that issue, the author and Michael McPherson of the Spencer Foundation recently chaired a Rethinking Student Aid study group. In September 2008, The College Board released the recommendations, which included eliminating the complicated financial aid form and relying on tax data; also simplifying the aid allocation formula so students and families would know well in advance how much federal aid to expect.

Students should not be discouraged from completing their education for lack of funds. For most, money is available. Federal Pell Grants are increasing dramatically in 2010. Federal student loans are more available than ever and have increasingly generous repayment terms. Similarly, many institutions are working to ensure that their financial aid budgets are maintained or increased in the midst of budget pressures.

Financing this investment can be a struggle for students and families even in good times. The system of college prices and student aid is unnecessarily complex and unpredictable. Providing more and better information and guidance while working to improve the system and increase available funding is critical to ensuring college access for low- and moderate-income students.

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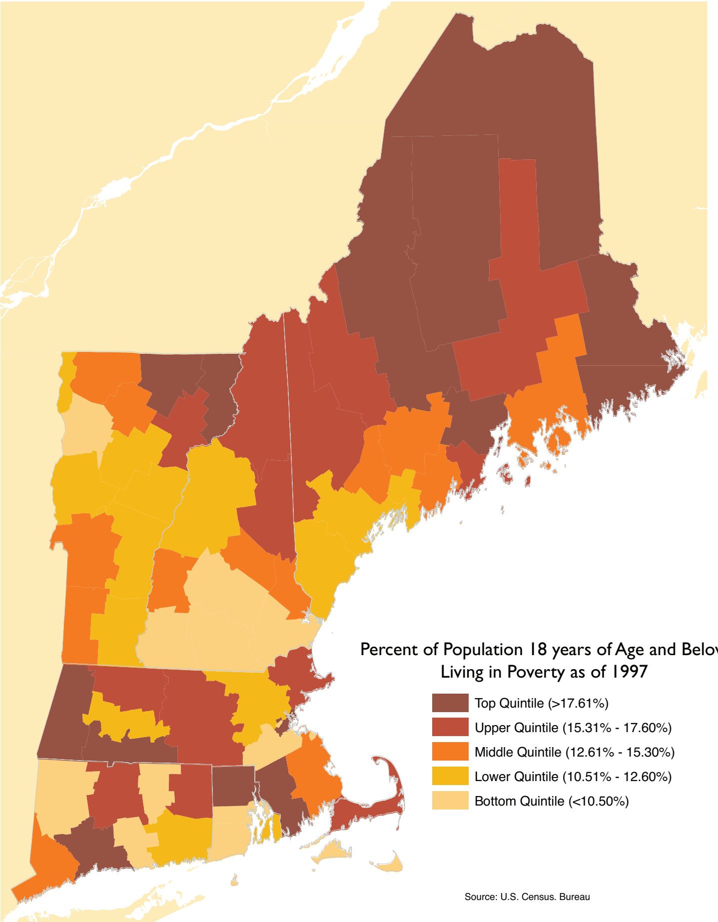
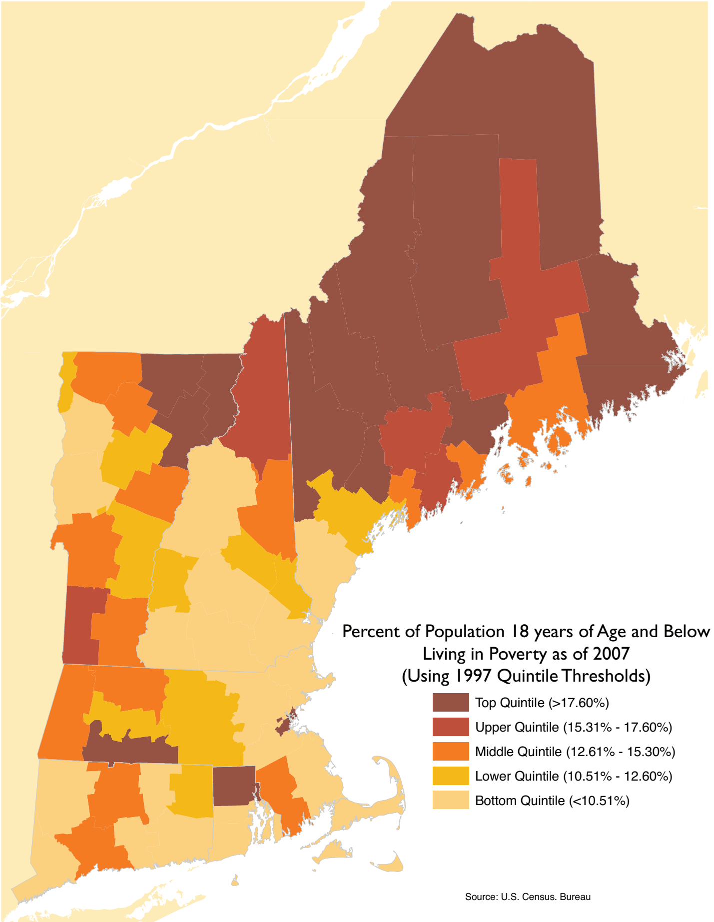
Mapping New England

Child Poverty by County



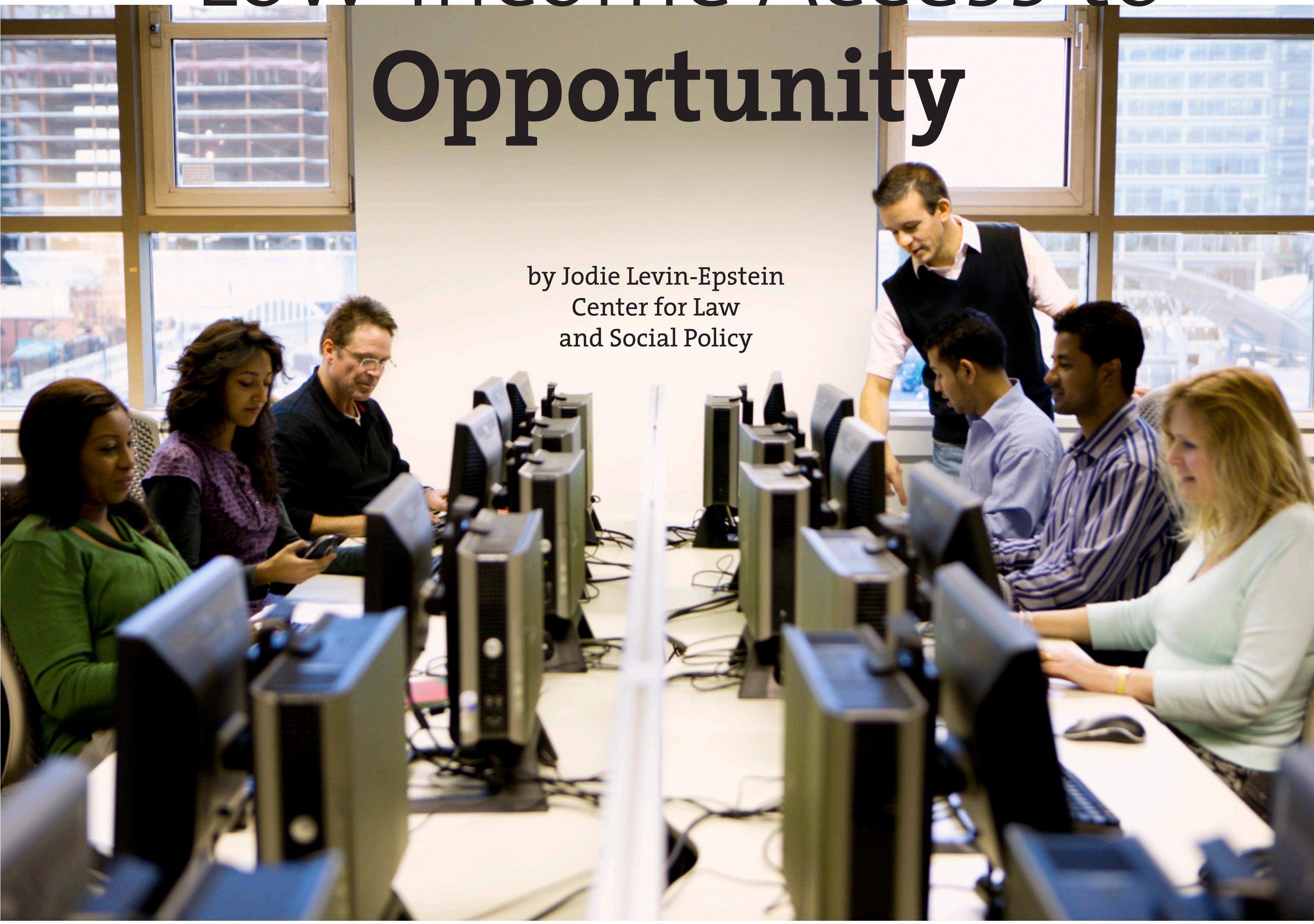


To assess family poverty, the U.S. Census Bureau compares pretax monetary incomes against one of 61 income thresholds for different family sizes and family member ages. Children living in poverty are more likely to have lower earning power and to suffer from health problems and crime when they grow up. A 2008 study in *The Journal of Children and Poverty* estimates that the costs associated with child poverty are about $500 billion per year nationwide.

The two maps show child poverty trends in the past decade. Rural communities in northern New England states have persistent child poverty, as do some urban areas. The region as a whole experienced a declining child poverty rate between 1997 and 2007. *Communities & Banking* plans to present post-recession maps when data are available.

Map: Kai-yan Lee, Federal Reserve Bank of Boston

Increasing Low-Income Access to Opportunity



by Jodie Levin-Epstein
Center for Law
and Social Policy

iStockphoto

In the United States, where one in seven people lives in poverty, political discourse about the importance of addressing poverty and its harmful effects—on children, families, communities, and government—has been almost taboo in recent decades.[1] Now a shift is taking place, with state and city governments giving visibility to both poverty and opportunity through task-force initiatives, summits, state poverty targets, and more. In New England, where state poverty rates range from 7 percent to 12 percent, there are more initiatives than in any other region. All six states (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut) have poverty rates that are lower than the national average. (See "Population in Poverty, 2007.") New Hampshire's is the lowest nationwide; Connecticut's is second lowest.

Even so, the poverty in those states is cause for concern. A state rate can mask local variations. In relatively rich Connecticut, the city of Hartford has the second-highest poverty rate of U.S. cities with populations more than 100,000.[2] And according to the 2000 Census, New Hampshire had eight tracts with more than 20 percent poverty, two with more than 40 percent.[3] The worsening economic situation and the increased numbers of children living in poverty—with more hunger, homelessness, and education disruption—has intensified the sense of urgency. (See "Share of Children in Poverty, 2007.")

Stakeholders and Initiatives

Nationwide at least 20 state governments have decided to take a fresh, comprehensive look at poverty in order to identify workable strategies.[4] Two examples, Vermont and Maine, were among 10 states receiving National Governors Association grants for poverty summits.

Cities are undertaking comprehensive examinations of poverty-reduction options, too. Some emerging urban strategies appear in the National League of Cities' "Combating Poverty."[5] In one example, an antipoverty task force housed at the Savannah, Georgia, Chamber of Commerce analyzed the demographics of poverty and its implications for Savannah. The U.S. Conference of Mayors is also on the case, with its Poverty, Opportunity and Work Task Force issuing recommendations and a call to the Obama administration to design a "comprehensive national plan to eliminate poverty."[6]

In addition to states' and cities' initiatives, national nonprofit campaigns such as Catholic Charities' "Cut Poverty in Half; Make the Nation Whole," the National Community Action Partnership's "Rooting Out Poverty," and the "Half in Ten" partnership (which includes the Center for American Progress, the Coalition on Human Needs, ACORN, and the Leadership Conference on Civil Rights) are all aimed at promoting increased opportunity by dramatically reducing poverty.[7] The campaigns seek to build public support, and to varying degrees they advocate policy solutions.

Another initiative, "Spotlight on Poverty and Opportunity: The Source for News, Ideas, and Action," gives policymakers and advocates a place to find the latest developments nationwide and a platform for debating ideas. For example, both Nancy Pelosi, a Democrat, and Newt Gingrich, a Republican, have written commentaries for Spotlight.[8]

Perhaps most significantly, voters themselves are raising the visibility of the topic. A McLaughlin Associates poll that Spotlight sponsored during the 2008 presidential campaign found that most voters favored more discussion of poverty.[9]

Among other reasons for poverty's increased visibility is its cost. Persistent childhood poverty, as the Center for American Progress reports, costs the nation about half a trillion dollars annually.

But it doesn't have to be that way. As the Center for American Progress report "From Poverty to Prosperity: A National Strategy to Cut Poverty In Half" states, increasing the minimum wage, Earned Income Tax Credits, Child Tax Credits, and child-care subsidies could cut poverty by more than 25 percent in a decade and, with additional steps, by 50 percent.[10]

The recession deepened the challenge,

Population in Poverty, 2007

Rank (where 1 indicates lowest poverty)		
United States		13%
2	Connecticut	8%
20	Maine	12%
8	Massachusetts	10%
1	New Hampshire (lowest)	7%
20	Rhode Island	12%
8	Vermont	10%

Source: Kids Count, Updated September 2008. Showing the share of all people who live in families with incomes below the federal poverty level, as defined by the U.S. Office of Management and Budget.

Share of Children in Poverty, 2007

Rank (where 1 indicates lowest poverty)		
United States		18%
4	Connecticut	11%
16	Maine	15%
11	Massachusetts	13%
1	New Hampshire (lowest)	9%
25	Rhode Island	17%
7	Vermont	12%

Source: Kids Count, updated September 2008. Showing the share of children under age 18 who live in families with incomes below the federal poverty level, as defined by the U.S. Office of Management and Budget.

though. At one point analysts calculated that if unemployment rose to 9 percent by the fourth quarter of 2009 and policies failed to create enough jobs or provide an adequate safety net, 10.3 million more people could join the ranks of the poor.[11] Unemployment reached 9.5 percent in June.

New England Efforts

Most New England states have created a task force to produce a clear picture of poverty among their residents and to identify policy solutions and priorities. Connecticut, Maine, Rhode Island, and Vermont have legislated such efforts. Massachusetts has an Asset Development Commission focused on how asset-building strategies can enhance the financial stability of low-income people.

So far, task-force policy recommendations have been issued in Connecticut and Vermont. Connecticut released 67 recommendations and subsequently invited a national panel to winnow the list down on the basis of several criteria, including evidence of impact. The 13 final priorities included income supports such as the Earned Income Tax Credit, child-care subsidies available to families with incomes up to 200 percent of the poverty level, investments in education, and family-structure support (such as teen-pregnancy prevention).

Among Vermont's holistic recommendations were "safety net" priorities such as food, fuel, and housing; education priorities (such as eliminating the income disparity in test scores and graduation rates by 2015); and employment priorities (including enhancing career pathways and retaining child-care support for a period of time after incomes increase).

Nine states around the nation have established a poverty-reduction target as a way to provide a common focus for varied policy options.[12] A target sets a numerical goal and a timeline. It does not take a stand on which policies are best, but if wielded effectively, it can keep stakeholders' eyes on the prize. Although such targets are relatively new, experience with other targets—for example, those for reducing homelessness or gas emissions—can provide helpful lessons.[13]

In 2004, Connecticut became the first state to legislate a poverty-reduction target. The law calls for child poverty to be cut in half by 2014. Advocates are frustrated that the state has not yet moved poverty back to earlier levels and that a helpful strategy—a state earned-income tax credit—passed in the legislature but was vetoed. With Maine and Vermont setting goals more recently, New England has more poverty-reduction targets than any other region.[14]

Fortunately for the region, many municipal authorities, nonprofits, and individuals are stepping up to the plate. A few of their initiatives follow:

City government: In Providence, Mayor David N. Cicilline has convened the Poverty, Work & Opportunity Task Force. Its 2007 recommendations are now being prioritized and implemented with metrics to measure progress.[15]

City philanthropy: In Boston, the Eos Foundation has pledged $15 million over five years—and is seeking matching funds—for a poverty-alleviation program featuring proven business techniques and investment in nonprofits.

Regional child advocacy: The New England Region Poverty Consortium of state child advocacy organizations works to identify common issues and swap policy ideas and winning strategies among the six states.[16]

Individual volunteers: Examples abound. In Hartford, volunteer budget advisers coach volunteer low-income workers through a program operated by Co-opportunity Inc. A bonus is that the professionals gain a better understanding of how little some workers earn and how much they struggle to survive.

Through these and other efforts, New England is succeeding in making the issues of poverty and opportunity more visible. As measured by government decisions to establish commissions, set poverty targets, and convene governor-level summits, the region actually leads the country. It is tempting to speculate why. One possible answer might be that states with both high rates of poverty and high rates of wealth find the issue more pressing. Although recession and budget realities will impact investment in poverty reduction, leaders need to remember that those same forces will be adding to the ranks of the poor and that postponing potential solutions will only make the problems more intractable in the future.

Jodie Levin-Epstein *is the deputy director of the Center for Law and Social Policy, www.clasp.org, which is based in Washington, DC.*

Endnotes

[1] See http://www.clasp.org/publicationskeepaneyeontheprize.pdf.
[2] See http://www.cga.ct.gov/coc/PDFs/poverty/2005_poverty_report.pdf.
[3] See http://www.census.gov/hhes/www/poverty/20percent/20percent.html.
[4] See http://www.clasp.org/publications/clasp_report_0418.pdf.
[5] See http://usmayors.org/chhs/uploads/ActionAgendaPoverty.pdf.
[6] See http://www.nlc.org/ASSETS/492F291196434AA590778DC4361670B8/08_YEF_CombatingPoverty.pdf and http://usmayors.org/chhs/poverty.asp.
[7] See http://www.communityactionpartnership.com/index.php?option=com_content&task=view&id=44&Itemid=73.
[8] New England funders include the Endowment for Health, based in Concord, New Hampshire, and the Boston-based Eos Foundation. See http://www.spotlightonpoverty.org.
[9] See http://www.spotlightonpoverty.org/news.aspx?id=b823e55f-77bc-4b14-a78a-74d5f1de67c4.
[10] See http://www.americanprogress.org/issues/2007/04/poverty_report.html.
[11] See http://www.cbpp.org/11-24-08pov.htm.
[12] Colorado, Connecticut, Delaware, Illinois, Louisiana, Maine, Minnesota, and Vermont have set targets; Oregon's government performance measures include a poverty reduction goal.
[13] Jodie Levin-Epstein and Webb Lyons, "Target Practice: Lessons for Poverty Reduction," www.clasp.org.
[14] Vermont's Council oversees a target to cut child poverty in half by 2017. See http://www.leg.state.vt.us/workgroups/ChildPoverty. Maine's commission will set numerical targets for an assigned time frame. See http://www.mainelegislature.org/legis/statutes/5/title5ch391.pdf.
[15] See http://www.providenceri.com/press/docs/prosperity_in_providence.pdf.
[16] See www.clasp.org/publications/seizing_the_moment_1._overview___snapshot.pdf.

by Caroline Ellis
Federal Reserve Bank of Boston

Cutting to the Roots of a Problem

HarborOne
MultiCultural Center

Illustration: Fabienne Anselme Madsen

In 2007, as foreclosure rates moved toward crisis levels, HarborOne Credit Union President and CEO James Blake attended a Mortgage Summit Working Group assembled by Massachusetts Commissioner of Banks Steven Antonakes. Studying the statewide foreclosure rates, Blake was alarmed to see that HarborOne's headquarters city of Brockton had the highest.

Meeting later with HarborOne staff, he found the discussion repeatedly turning to the numbers of immigrants in trouble. Recent Brockton arrivals often spoke little English and—whether because of mistrust, poor credit, inconvenient banking hours, or lack of information—were not participants in the traditional, regu-

Photograph: Courtesy of HarborOne Credit Union

Students at HarborOne Credit Union's MultiCultural Center may choose classes taught in English, Spanish, Portuguese, or French.

lated banking system. If they needed a loan, they borrowed from family and friends or from high-interest payday lenders. To send money to family back home, they used the ubiquitous Western Union, open at all hours. Lacking credit cards for making purchases, they often carried all their cash, a dangerous practice that made them walking ATMs for the unscrupulous.

Bundled Mortgages

Not long after the 2000 dot-com bust, Wall Street grew bored with familiar investments and developed a voracious appetite for "a little more risk" in the form of debt vehicles built on mortgages. As investor hunger grew, it created powerful incentives in the marketplace, and certain kinds of businesses rushed to fill the demand. Largely unregulated companies that focused on creating mortgages and distributing them began to unload bundled mortgage debt on eager investors. If borrowers defaulted. the problem was no longer the lenders'.

In Brockton, unfortunately, immigrants' lack of English, lack of information, and unfamiliarity with banks made them appetizing targets for such lenders, whose representatives often were known to victims' friends, spoke their language, seemed honest, and promised an easy entrée to the American Dream.[1] In addition to immigrants, many minorities and low-income residents also were vulnerable.[2]

HarborOne's staff could see what was happening. But what to do? A vice president had a thought: "We've been providing financial literacy for a decade. How about a multicultural center to teach people?"

The idea took flight. The center would teach whatever would move people toward the goal of financial stability. It would start with classes in English for Speakers of Other Languages (ESOL) and move students into other subjects, taught in English, Spanish, Portuguese, and French. A fine, old, vacant building that HarborOne had owned for 50 years would be reopened to house the center. Its downtown location, near ethnic businesses, a health center, and community groups, would create synergy. In time, financially educated and loyal beneficiaries of the center would become customers and make the initiative profitable.

Immigrants' lack of English and lack of information made them appetizing targets for unscrupulous lenders, whose representatives often were known to victims' friends, spoke their language, seemed honest, and promised an easy entrée to the American Dream.

Getting Started

The center opened in September 2007. In addition to a banking branch, there was a multilingual triage desk to point people to services they needed, classrooms, a computer lab, and free office space for nonprofit groups with related offerings.

The center got off to a slow start, but the credit union wasted no time reaching out to community organizations.

Outreach

Outreach was nothing new for HarborOne. A state-chartered Massachusetts credit union, it had long demonstrated leadership in Brockton in terms of complying with the Home Mortgage Disclosure Act (which addresses lending to minorities) and bringing low- and moderate-income people into the banking system.[3]

Fully aware of the value of having nonprofit organizations as allies, HarborOne partnered with roughly 15 community groups on outreach for the center. Reflects Senior Vice President of Community Relations Leo MacNeil, "They taught us what their constituents needed, both how they needed to be reached and what sorts of classes they needed."[4]

Offerings

To solve the problem of immigrants being taken advantage of, HarborOne decided to address root causes like English deficiency and the demand for ESOL classes in Brockton (more than 1,700 residents on waiting lists).

The center's students generally start with ESOL.[5] Both the ESOL and computer literacy courses become feeders for the financial literacy classes. Going further to assist potential future customers, HarborOne offers preparation for citizenship tests, credit counseling, specialized English for specific workplaces, and more. Free workshops are offered through the Small Business Assistance Center of UMass, Boston. Meanwhile, Brandeis University has applied for a grant to study the MultiCultural Center Savings Club.

The center's two classrooms each hold about 25 people. With world maps on the walls, students enthusiastically show where they come from and all the places they have lived. Teachers engage them in learning various ways, going at the individual's pace and assisting with their different goals. One participant wanted only to learn to e-mail her daughter in another state. The morale boost that the skill gave her boosted other aspects of her adjustment to a new country.

For financial education, the center uses the Federal Deposit Insurance Corporation's MoneySmart 10-module curriculum. When students have successfully completed the course, they get a personal review of their credit report and a $500 line of credit regardless of the condition of their finances. If they manage their account well for the following year, as the majority do, the credit line is increased to $1,000. And for those who have learned how to correct bad credit, there is Second Chance Checking.

Costs Lead to Benefits

The center turned a profit after one year. HarborOne continues to use grants where possible. It benefits from new deposits and lending relationships with program graduates—and others who appreciate what HarborOne is doing for the community. The credit union estimates that the center has received $100,000 in free publicity and good will.

Nevertheless, only a serious commitment could have motivated the initial outlay. Since the credit union is not a 501(c)3 charity and therefore not eligible for most grants, it must pay expenses out-of-pocket.[6] To supplement a grant from the National Credit Union Foundation in Washington, DC, HarborOne covered the start-up costs and provided four staff members.[7] Some costs were unexpected, such as security guards at night when classes were held.

Computer literacy courses become feeders for financial literacy classes. To assist potential future customers, Harbor One also offers preparation for citizenship tests, credit counseling, and English for specific workplaces.

Future Plans

This year the MultiCultural Center partnered with community-action group Self Help Inc. in hosting a Volunteer Income Tax Assistance (VITA) site. Almost 350 free tax returns were completed against a goal of 200. There also was a budgeting class for taxpayers waiting in the break room for a tax preparation volunteer. Through Self Help, the center also will offer individual development accounts for purposes like education or homeownership.

Supplementing its own services, the center provides free office space for Self Help and community groups such as South Shore Housing and Neighborhood Housing Services. From February to November 2008, NHS counseled more than 400 troubled borrowers and expects to counsel at least 900 in 2009.[8] It offers monthly first-time home-ownership workshops in four different languages (nine workshops in 2008, with 180 attendees) and routinely holds foreclosure-prevention clinics. Additionally, Training Resources offers specialized ESOL opportunities, thanks to the Brockton Area Workforce Investment Board's recent receipt of ESOL-for-employment grants.

As students attest, the MultiCultural Center has helped them to learn skills with applicability in the workplace and at home, and also to correct credit problems through counseling. Today they're spreading the word and hoping the offerings will continue to fill what is a growing community need.

Says CEO Blake, "The MultiCultural Banking Center is not a quick-fix solution to predatory lending issues. We view this as a long-term initiative that will provide the information and skills necessary to help residents of this area."

A recent graduate of ESOL for Employment sums up the hunger for this sort of service: "When I received the call to take this course, I only understood one word, 'school.' And so I came."

Caroline Ellis *is the editor of the Federal Reserve Bank of Boston's Communities & Banking magazine.*

Endnotes

[1] Brockton immigrant populations in order of size are Cape Verdeans, Portuguese, Haitians, Latinos, and more recently, Brazilians, and Asians.

[2] The Center doesn't turn anyone away. The majority of attendees of classes are immigrants. Neighborhood Housing Services reports that 60 percent of the residents they see are immigrants.

[3] HarborOne has received five outstanding-performance ratings under the Community Reinvestment Act and has won the Massachusetts Social Responsibility Award and the Dora Maxwell Social Responsibility Recognition Award at both state and national levels. Additionally, it was instrumental in bringing the Credit for Life financial literacy fair to the local high school.

[4] To promote the center, HarborOne also tapped ethnic media and sponsored ethnic events.

[5] Financial Literacy is free. ESOL and Computer Literacy carry nominal fees (less than $100) for materials. HarborOne allows installment payments, and the United Way of Greater Plymouth County offers scholarships and textbook funding.

[6] The bank is looking into how the Pentagon Federal Credit Union created a 501(c)3 to aid veterans. If it could create a similar offshoot, it would be able to apply for more grants.

[7] The National Credit Union Foundation provided an Innovation Grant of $100,000 to be used in 2009 to further the center's programs.

[8] Neighborhood Housing Services, Brockton, has requested $1.3 million from the federal Neighborhood Stabilization program. Brockton 21st Century Economic Development Corporation (Building a Better Brockton) will parcel out any money the city gets.

by Chester Hartman
Poverty & Race Research
Action Council

Homelessness
and Student Learning

It is an obvious assumption that students of all ages are affected negatively by losing their regular place of residence and relocating for an indefinite period to a relative's or friend's house (if they are lucky), to a motel or shelter (if they are less lucky), or to a campground, tent city, park, abandoned building, bus station, vehicle, or the street (if they are really unlucky). But one need not rely on assumptions. There is a wealth of evidence documenting how learning suffers, and it's especially worth paying attention to today as foreclosures increase and create more homelessness.

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The definition of homeless used here is that of the federal McKinney-Vento Act: children and youth who lack "a fixed, regular, and adequate nighttime residence."[1] That usually translates into living in overcrowded—and hence unstable—conditions not conducive to a focus on schoolwork.

Recent evidence of the effect of homelessness comes from the Gulf Coast, where according to the U.S. Dept. of Education, the 2005 hurricanes displaced some 372,000 students—preschool through college. Tens of thousands of K-12 students changed school districts, disrupting their studies and their relationships with teachers and peers. And although some student challenges resulting from a hurricane may be unique, the arrival at a new school without records on health, past discipline, immunization, or academics is not unusual for any homeless child.[2]

Unsurprisingly, the report continues, "homeless children are twice as likely as other children to repeat a grade in school, to be expelled or suspended, or to drop out of high school."

Whatever the individual cause, more than 1.5 million children go to sleep without a home each year, according to the National Center on Family Homelessness (NCFH).[3] The experience—no matter how temporary—can severely disrupt a child's future sense of security.[4] And schools are seeing the problem worsen. As a recent *Time* article reported, nearly 16 percent more students were homeless in the 2007 to 2008 academic year than in the previous one.

The reasons why homelessness undermines the concentration needed for learning are legion. According to the NCFH report, homeless "children endure a lack of safety, comfort, privacy, reassuring routines, adequate health care, … sustaining relationships, and a sense of community." Moreover, their homelessness often involves other hurdles to getting an education. NCFH notes that "children without homes are twice as likely to experience hunger" and "are more than twice as likely as middle class children to have moderate to severe acute and chronic health problems." Unsurprisingly, the report continues, "homeless children are twice as likely as other children to repeat a grade in school, to be expelled or suspended, or to drop out of high school."

First Focus, a bipartisan organization advocating for children and families, has identified behavioral issues associated with forced mobility. It notes a study showing that "frequent movers were 77 percent more likely than children who have not moved to have four or more behavior problems." In another study tracking 4,500 California and Oregon middle school through high school students, says First Focus, young people who attended several different elementary schools showed 20 percent increased "likelihood of violent behavior in high school."[5] In fact, frequent moves were correlated with 28 percent of homeless children attending three or more schools in a single year.[6]

Numerous localities are testing interventions. The *Time* magazine report zeroed in on Minneapolis, where nearly one in 10 children attending public school is homeless. "Perhaps out of necessity," *Time* says, "the district has become a national model for how to identify what it refers to as 'highly mobile students' and ensure that their education is not interrupted. … Teachers and school social workers are trained to recognize signs that a child may be between homes: hoarding food, wearing the same clothes every day, regularly falling asleep in class. … The school district gives each homeless child a new backpack full of school supplies paid for by private donations and federal dollars." And in the winter, "staff members hand out coats, mittens, and hats. Year round, they find free medical clinics to treat earaches and provide dental services. School social workers take kids to get glasses and vaccinations. Many high schools offer laundry or shower facilities for teenagers." Additionally, the district "provides funding to make sure kids don't get left out of sports, field trips, school dances, or special projects like the science fair."

The economic crisis is intensifying the challenges.[7] First Focus estimates that over the next two years "2 million children will be directly impacted by the mortgage crisis as their families lose their homes due to foreclosures." It adds that the estimate would be higher if it included children evicted from rental units affected by foreclosure.[8] More than two-thirds of the children losing homes through foreclosure are either African American or Latino, exacerbating long-recognized achievement gaps for those populations.

Using Center for Responsible Lending projections and 2005 to 2006 data, the First Focus report provides a state-by-state estimate of future foreclosures and their direct effects on children. It gives 76,000 as the number of such foreclosures in the six New England states, with more than 60,000 children affected.

Although more help is needed, the administration's economic stimulus package included $70 million in supplementary funding for the McKinney-Vento Act's Education for Homeless Children and Youth program. The legislation required the U.S. Department of Education to provide funding for the program to state educational agencies within 60 days of the legislation's enactment, and states were required to distribute the money to local school districts within 120 days of receipt of funds. Additionally, the American Recovery and Reinvestment Act provided funding for programs that benefit homeless children among others: Head Start and Early Head Start, HUD's Emergency Shelter Grant program, FEMA's Emergency Food and Shelter program, Child Care Development Block Grants, Special Education Funding to the States and Special Education Grants for Infants and Families, and Title 1 funding to school districts. A State Fiscal Stabilization Fund intended to prevent cutbacks in critical education and other services received $53.6 billion.

As the National Center on Family Homelessness says, homelessness in a country like United States is unacceptable. The severe effects on the educational enterprise need to be added to the many compelling reasons for solving the problem.

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Acknowledgments

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Endnotes

[1] See 42 U.S.C. §11434A(2)(a).

[2] See Chester Hartman and Gregory Squires, "Katrina and Kids: The Impact, the Sequelae" in *Rebuilding Sustainable Communities for Children and Their Families after Disasters*, ed. Adenrele Awotona (Newcastle upon Tyne, United Kingdom: Cambridge Scholars Publishing, forthcoming). The chapter includes an appendix with information on the Congressionally mandated National Commission on Disasters and Children. See also "Student Mobility: How Some Children Get Left Behind," eds. Chester Hartman and Todd Franke, The Journal of Negro Education 72, no. 1 (2003), in particular, Patricia F. Julianelle and Maria Foscarinis, "Responding to the School Mobility of Children and Youth Experiencing Homelessness: The McKinney-Vento Act and Beyond," and articles on migrant students, students in career military families, immigrant students, students with emotional and behavioral disorders, children in foster care, and an overview of research on the causes and consequences of student mobility, which pinpoint housing instability as the principal trigger for school changes.

[3] *America's Youngest Outcasts: State Report Card on Child Homelessness* (2009), www.HomelessChildrenAmerica.org.

[4] Urban Institute research regarding the U.S. Immigration and Customs Enforcement workplace raids' effects on children are a case in point. See for example, http://www.bos.frb.org/commdev/c&b/2008/summer/capps_immigrant_children.pdf.

[5] Phillip Lovell and Julia Isaacs, "The Impact of the Mortgage Crisis on Children," First Focus (May 2008), www.firstfocus.net.

[6] "Education of Homeless Children: Overview," *Street Lawyer* (Washington, DC: National Law Center for Homelessness and Poverty, June 18, 2008). See also the PBS NewsHour's March 31, 2009, segment on homeless children in schools, focusing on Green Bay, Wisconsin, http://www.pbs.org/newshour/video.

[7] Barbara Duffield and Philip Lovell, *The Economic Crisis Hits Home: The Unfolding Increase in Child and Youth Homelessness* (Washington, DC: National Association for the Education of Homeless Children and Youth and First Focus, December 2008). The study provides recommendations for federal policymakers, schools, and community agencies.

[8] Danilo Pelletiere and Keith Waldrip, "Renters and the Housing Credit Crisis," *Poverty & Race* (July-August 2008).


by Jonathan Spader
Center for Community Capital

Illustration: Kirk Lyttle

The Bold and the Bankable

Nuestro Barrio Telenovela and Financial Education

The Community Reinvestment Association of North Carolina, a community-based advocacy organization, is pioneering a creative use of media to communicate social messages. From the vantage point of Peter Skillern, CRA-NC's executive director, the recent revolution in communication technologies creates new opportunities for small organizations to communicate their messages broadly, including financial-education messages. Nuestro Barrio, CRA-NC's most recent project, is a case in point.

The Nuestro Barrio telenovela, a 13-episode soap opera targeted to Latino immigrants, first aired on the WB network in North Carolina, making it the first Spanish-language show to air on an English network in the United States.

The Nuestro Barrio telenovela, a 13-episode soap opera targeted to Latino immigrants, first aired on the WB network in North Carolina, making it the first Spanish-language show to air on an English network in the United States. It has since been broadcast on both nonprofit and for-profit channels in major markets nationwide. What is unique about Nuestro Barrio is not only that it was written and produced by CRA-NC (and not Univision or Telemundo), but also that it contains financial literacy content designed to educate Latino immigrants about financial services.

The episodes contained in the first season collectively cover many of the topics addressed in financial education and homeownership counseling courses. Unlike a course, however, the material is integrated into the storyline of the show's characters. For instance, one episode reveals a dark secret and hidden conflict between the two elder statesmen of the community. When one's restaurant is then burned to the ground, the other is the natural suspect, and the drama remains intense right up to the cliff-hanger ending. In the process, viewers also witness the businessman's foresight in having insurance coverage, which allows him to rebuild.

A plotline in a separate episode follows Javier, a younger member of the community, as he works to purchase a car and attract dates. The episode first follows Javier's interactions with a used car salesman of questionable intentions. After Javier purchases the vehicle, a robbery at his apartment eliminates his remaining savings. Relying on his friends for help, he is led to the bank to open savings and checking accounts and is forced to more closely examine the terms of his car loan.

A Tailored Approach to Financial Education

Discussions of Latino immigrants and financial literacy have long recognized the need for tailored content and materials. Although the translation of materials into Spanish and other languages represents a necessary first step, the specific curricular needs of Latino immigrants must also be addressed. Remittance transfers, documentation requirements, and more general information on the landscape of U.S. financial institutions must be included in any targeted program.

A conversation with Nuestro Barrio's creators reveals that the educational content is carefully developed with those specific needs in mind. However, the educational content is only one component of Nuestro Barrio's educational model. Nuestro Barrio's educational value depends just as much on its entertainment value and ability to attract viewers as on the information provided.

Put another way, success requires that Nuestro Barrio's storyline and production quality rival that of competing programming. The drama must be intense and the cliff-hangers must be heart wrenching. From the perspective of its creators, Nuestro Barrio's educational impact depends directly on its entertainment value to Latino immigrant viewers. After all, the financial content can only be absorbed by those individuals who view episodes.

Although it is difficult to calculate the precise number of Latino immigrants reached by Nuestro Barrio, early airings in North Carolina attracted approximately 6,000 viewers per episode. Focus group testing further corroborates Nuestro Barrio's ability to compete with other programming, highlighting viewers' identification with the characters.[1] In the words of one viewer, "En esa telenovela se ve uno, se ven cosas que uno esta pasando ahorita o a gente que uno conoce. / In this soap opera, you can see things that are happening now or to people that one knows."

The approach has motivated the development of similar social-marketing initiatives in Mexico, Tanzania, and elsewhere around the world. Developed by public health officials seeking to communicate to at-risk populations, successful projects include formats ranging from 30-second radio spots to multiple-episode soap operas similar to Nuestro Barrio.[2] Given the popularity of existing telenovelas among recent Latino immigrants, Nuestro Barrio's creators gambled that this model could be transferred to financial education in the United States.

Soap Opera Education

At first glance, this way of communicating financial content appears novel. However, Nuestro Barrio's approach is rooted firmly and intentionally in an ambitious educational model based on the Transtheoretical Model of Behavioral Change (TTM theory).

Borrowed from the public health literature, TTM theory structures the process of behavioral change, asserting that individuals move through five stages as they progress toward permanent behavioral change.[3] Of particular interest is the theory's recognition that individuals begin in *precontemplation*, a stage in which they lack recognition of the potential benefits of a given behavior.

In relaying the stories and experiences of its characters, Nuestro Barrio seeks to confront viewers with various financial choices and outcomes. Forcing them to consider characters' experiences, Nuestro Barrio seeks to move viewers into the *contemplation* stage—in which individuals actively compare their current behavior with potential alternatives. The idea is that ultimately they will move into the *preparation*, *action*, and *maintenance* stages, in which the behavior of interest is actually modified. In this way, the elder restaurateur's unexpected fire is intended to tap the worries of self-employed viewers, confronting them with the potential value of insurance.

Dilsey Davis, Nuestro Barrio's writer, producer, and director credits her graduate studies in public health for initially exposing her to TTM theory. Combining this educational background with broad experience in acting and theater, Davis joined CRA-NC intent on using her unique abilities to further CRA-NC's advocacy through media. Following several smaller projects, she and Peter Skillern turned their attention to the financial literacy needs of North Carolina's growing Latino population—and Nuestro Barrio was born.

content efficiently, but such programs may not reach segments of the population that are of particular policy interest. By using entertainment to attract viewers, Nuestro Barrio offers a convincing mechanism for communicating financial literacy messages to a broad audience.

The implication is not that Nuestro Barrio and similar social-marketing initiatives should be viewed as replacements for traditional financial instruction, but rather that they may supplement the reach of existing programs. After all, viewers pushed out of precontemplation will be more receptive to traditional instruction, even if their initial interest in the material came from seeing Maria struggle to make ends meet after Frank shamelessly cheated with a flirtatious nurse.

Nuestro Barrio's Relative Strengths

The most important TTM theory insight for the collaborators' purpose was its recognition that individuals begin in precontemplation. Because traditional financial education programs serve only those households that seek out program materials or instruction, it simply doesn't have the reach to meet the needs of many recent immigrants. Instead, the act of seeking out or participating in financial education reflects recognition of its value, a sign that the individual has probably already reached or surpassed the contemplation stage.

Nuestro Barrio attempts to reach out to the broader population, first convincing viewers of the value of financial education and literacy. For many Latino immigrants—as well as for many unbanked and underbanked households—this latter approach may be necessary to induce engagement with mainstream financial services. Moreover, engaging a viewer's interest in financial material may also make them more receptive to existing sources of financial education and information.

These expectations are supported by recent research conducted by the Center for Community Capital at the University of North Carolina at Chapel Hill.[4] This author, collaborating with several other researchers, used a treatment/control group research design to examine what impact viewing Nuestro Barrio had on the financial knowledge, attitudes, and behaviors of a sample of Latino immigrants.

The results are consistent with the effects intended by Davis and Skillern. Nuestro Barrio viewers are shown to have progressed further through TTM theory's five stages of change. Moreover, Nuestro Barrio viewers are more likely to exhibit characteristics associated with movement out of precontemplation, paying closer attention to friends and family when they talk about financial issues and seeking out information about financial products on their own.

Expanding the Financial Education Toolbox

The research findings highlight the unique abilities of Nuestro Barrio relative to traditional financial education programs. If participants are already interested in learning about financial services, traditional financial education may be successful in conveying

Because traditional financial education programs serve only those that seek out program materials or instruction, it simply doesn't have the reach to meet the needs of many recent immigrants.

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Endnotes

[1] In comparing Nuestro Barrio with other programming, 47 percent of respondents to a telephone survey indicated that they would always prefer Nuestro Barrio, and an additional 50 percent indicated that they would sometimes prefer Nuestro Barrio. Only 3 percent indicated a consistent preference for other programming.

[2] See, for example, Peter W. Vaughn and Everett M. Rogers, "A Staged Model of Communication Effects: Evidence from an Entertainment-Education Radio Soap Opera in Tanzania," *Journal of Health Communication* 5 (2000): 203-227; and Reginald Clifford, "The Social Imaginary of the Telenovela," *Television and News Media* 6 no.4 (2005): 360-369.

[3] For an overview of TTM theory and its structure, see James Prochaska and John Norcross, "Stages of Change," *Psychotherapy* 38 no.4 (2001): 443-448; and James Prochaska, Carlo DiClemente, and John Norcross, "In Search of How People Change," *American Psychologist* 47 no.9 (1992): 1102-1114.

[4] The complete results of the Nuestro Barrio evaluation are presented in Jonathan Spader, Janneke Ratcliffe, Jorge Montoya, and Peter Skillern, "The Bold and the Bankable: How the Nuestro Barrio Telenovela Reaches Latino Immigrants with Financial Education," *Journal of Consumer Affairs* 43 no.1 (2009): 56-79.

Shared Equity Housing:

Designed to Last

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by John Emmeus Davis

Burlington Associates in Community Development LLC

Most efforts to boost lower-income households into the ranks of first-time homeowners are designed for the sunny middle of the business cycle, not for the harsher conditions at either extreme. Neither the supply-side programs that subsidize production of affordably priced housing nor demand-side programs that provide grants and low-interest loans for the purchase of market-priced homes do much to preserve affordability, promote upkeep, or prevent foreclosure, especially when the economy is very hot—or very cold. No provision is made for stewardship.

Engineers would describe such a system as lacking the capacity for graceful failure. Engineers do not assume the sun will always shine; nor do they set themselves the impossible goal of designing a building, electrical grid, or computer program that will never fail. They strive, instead, to design systems that are robust and resilient. Such a system fails only in extreme conditions—and then fails gracefully. It bends, but doesn't break. It dims and flickers, but doesn't crash. It collapses, but with enough warning and backup to protect its most valuable components.

Resilience is omitted from the private tenures and public programs typically used to expand homeownership because little attention is paid to what can happen to publicly subsidized, privately owned homes after they are sold. That is a serious flaw of policy and design. Whenever public resources are lavished on owner-occupied homes, more must be done to preserve affordability. More must be done to ensure that the public's investment is neither removed at resale nor gradually depleted through deferred maintenance. More must be done to ensure that lower-income families can stay in their homes, neither nudged out by rising costs nor forced out by foreclosure. Stewardship is the way to create homes that last.

Shared Equity Homeownership

Stewardship is not a part of conventional homeownership models. It is a standard feature, however, of community land trusts (CLTs), limited equity cooperatives (LECs), and houses and condominiums with affordability covenants lasting many years. Together, these models are increasingly known as "shared equity homeownership."

The individuals occupying this housing are homeowners. They possess many of the rights any other homeowner enjoys: a property interest secured by a deed, a ground lease, or corporate shares that are transferable and inheritable. The occupants are also placed beyond the pale of tenancy by the responsibilities they assume, the rewards they earn, and the risks they bear.

Unlike their counterparts in market-rate housing, however, some of these rights, responsibilities, risks, and rewards are shared with a public agency or nonprofit organization that remains in the picture long after the homes are sold. Part of what is shared is the financial gain from homeownership. Homeowners recoup at resale whatever investment they have made in providing a down payment, paying off their mortgage (or share loan), and paying for later improvements—plus a modest return. They do not walk away with all the value embedded in their property, however, since much of it is a product of the community's investment: equity invested at the time of purchase if a public grant or a municipally mandated concession from a private developer was used to reduce the home's price; and equity accumulated during the homeowner's tenure if public investments in infrastructure and general improvements in the regional economy have boosted the price. This socially created value is retained in the home. When resold, the home is transferred to another income-eligible buyer for a formula-determined price that allows a fair return for the seller, while preserving affordability for the next buyer of limited means.

Shared equity homeownership is not the same as a shared appreciation mortgage. In the latter, any subsidies are removed by the investor at resale—augmented by a share of the home's appreciated value—and the home resells at market rate. With CLTs, LECs, and deed-restricted houses and condominiums, any outside subsidies (and much of the property's appreciated value) remain in the home, reducing its price across multiple resales. Subsidies are neither pocketed by the departing homeowner, nor recaptured by a public or private investor.

Note that what is shared in these unconventional models of tenure is more than investment and appreciation, more than money. It is the "owner's interest"—the total package of rights, responsibilities, risks, and rewards that accompany the ownership of residential property. In market-rate housing, this package belongs to the homeowner alone. In shared equity housing, someone other than the homeowner retains an interest in the property, continuing to exercise a degree of control over how it is used, maintained, and conveyed. Someone other than the homeowner stands behind the property, helping the occupants to shoulder the responsibilities and manage the risks of homeownership.

That someone may be the municipality whose dollars or powers made the home affordable in the first place. More often, stewardship is assumed by a nongovernmental organization like a CLT, LEC, or other nonprofit that performs important duties on the public's behalf: monitoring and enforcing resale controls that keep the housing affordable; promoting sound maintenance; and intervening, if necessary, to prevent foreclosures. These protections are not self-enforcing. They require a watchful steward to make them work—and to make them last.

Stewardship of Homeownership

Does stewardship make a difference? Reports from field, often anecdotal, indicate that CLTs and other models of shared equity homeownership are doing a superior job of preserving the affordability, quality, and security of their housing. Lately, however, as the proliferation of inclusionary programs requiring long-term affordability has boosted the number of shared equity homes, these tenures have begun to be subjected to some of the same data-driven scrutiny long afforded more conventional forms of housing.

Two recent evaluations deserve special notice. The Urban Institute is conducting a yearlong study, supported by NCB Capital Impact and the Ford Foundation, examining the performance of CLTs, LECs, and deed-restricted homeownership programs in eight communities. This evaluation is focused on the household-level benefits of these models—their effectiveness in preserving affordability, reducing foreclosures, building personal wealth, and enabling the sellers of shared equity homes to move into housing and neighborhoods of choice. The study will be completed in June 2010.

In the meantime, the nation's largest CLT, the Champlain Housing Trust (CHT) in Burlington, Vermont, has completed an evaluation of its own, "Lands in Trust, Homes That Last." Its study examined the performance of 410 resale-restricted, owner-occupied houses and condominiums developed by CHT between 1984 and 2008, focusing on the 205 homes that changed hands during that period. The study's highlights were as follows:

• Expanding homeownership. Access to homeownership for persons excluded from the market was expanded. All of the households CHT served earned less than 100 percent of area median income (AMI). Most earned considerably less.

• Preserving affordability. During years when prices for market-rate homes climbed sharply, CHT's homes remained affordable. On initial sale, the average CHT home was affordable to a household earning 56.6 percent of AMI. On resale, it was affordable to a household earning 53.4 percent of AMI.

• Creating personal wealth. Most homeowners departed CHT with more wealth than they had possessed when buying their home. The average homeowner, reselling after five-and-a-half years, recouped her down payment of $2,300 and received a net gain in equity of nearly $12,000.

• Retaining community wealth. Subsidies invested in CHT houses and condominiums stayed in the homes across multiple resales. Had these subsidies not been retained, the public investment necessary to serve the same number of households at the same level of income would have been five times greater.

• Enabling mobility. Two-thirds (67.4 percent) of the homeowners who resold a CHT home bought market-rate homes within six months of leaving; another 5.7 percent traded their first resale-restricted home for another, choosing to stay within CHT.

• Enhancing stability. All the land and 97 percent of the homes CHT developed between 1984 and 2008 remained securely under CHT's stewardship. Defaults were rare. When they happened, CHT acted swiftly to protect its investment and the lender's and homeowner's. There were only nine foreclosures in 25 years. No home has ever been lost from CHT's portfolio because of foreclosure.

The stewardship regime enforced by CHT has helped to safeguard the security, prosperity, and mobility of individuals buying one of its homes, while protecting the dollars invested and the affordability created by a community committed to expanding homeownership for persons of modest means. The same protections that have performed so well at CHT are common to nearly every form of shared equity housing. They make failure unlikely.

When failure does occur, these protections ensure that it is graceful, not catastrophic. Affordability sometimes erodes at the top of the business cycle, but even then, shared equity homes remain more affordable than their market-rate counterparts. The owners of shared equity housing sometimes default, especially at the bottom of the business cycle, but they are far less likely to lose their homes to foreclosure than the owners of conventional, market-rate housing. Garbed in stewardship, shared equity housing is better able to weather the harsh conditions of a fluctuating economy. These homes are designed to last.

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