Federal Reserve Bank of Boston

Communities & Banking

Supporting the Economic Strength of Lower-Income Communities

spring 2014
volume 25, number 2

MOVING TO SELF-SUFFICIENCY

page 4

Also Inside

Read *Communities & Banking* online at www.bostonfed.org/commdev

Communities & Banking

Communities & Banking magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

MANAGING EDITOR
Caroline Ellis

DESIGN
Rachel Bissett

COVER ILLUSTRATION
iStock

PHOTOS & ILLUSTRATIONS
iStock

Caroline Ellis
Managing Editor, *Communities & Banking*
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(617) 973-3187
caroline.ellis@bos.frb.org

For free subscriptions, contact:
Regional and Community Outreach, Unit 31
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(800) 409-1333
bostonfed.publications@bos.frb.org

Read online at
www.bostonfed.org/commdev/c&b

LETTER FROM THE EDITOR

In this issue, we find ourselves taking a look at housing programs that aim to move the poor to self-sufficiency.

Sherry Riva of Compass Working Capital describes helping motivated residents move up and out of public housing through financial coaching and goal setting. Meanwhile, Boston Fed researcher Erin Graves questions whether housing programs suffer from unrealistic expectations. She believes the programs are essential for helping the poor *get by* but suspects that only major systemic changes can help large numbers of people *get ahead*.

Victoria Fahlberg discusses how truants can be kept in school for a shot at a better life. Stephanie Owen and Isabel Sawhill of Brookings present research to help students from lower-income families make smarter decisions about postsecondary education.

John Banks and Laura Rose Day detail a collaborative model in Maine that emphasizes common interests over differences and has already resulted in reopening a river for improved tourism, fisheries, and tribal uses. Also in Maine, Jane Irish delves into the Genesis Community Loan Fund's ups and downs helping small mobile-home parks to become resident owned.

In Vermont, Martin Hahn explains how Community Capital approaches due diligence when lending to low-income entrepreneurs. And Peter A. Holland, University of Maryland School of Law, pulls back the veil on debt buyers who sue borrowers despite knowing that purchased consumer data is inaccurate. Kaili Mauricio's "Mapping New England" shows distances to outlets where food stamp beneficiaries can buy food.

Please visit our blog, www.thecentralpremise.org, and consider becoming a "follower." We like keeping in touch.

Best,

Caroline Ellis
caroline.ellis@bos.frb.org
Managing Editor

Contents

MOVING TO SELF-SUFFICIENCY

Sherry Riva
COMPASS WORKING CAPITAL

A revitalized Family Self-Sufficiency program helps families in subsidized housing increase their earnings, build assets, reduce reliance on public assistance, and become financially secure.

Traditional antipoverty programs that provide income supports such as food stamps or housing subsidies to help low-income families meet basic needs have often inadvertently created a disincentive for families to save or work.[1] The programs' asset limits contribute to a well-documented poverty trap that makes it impossible to build sufficient savings and other assets.

In federally subsidized housing, eligible low-income families typically pay 30 percent of their income toward rent, a formula designed to ease the rent burden. Inadvertently, such rules discourage some residents from increasing their work hours lest increased income mean they have to pay more rent and lose other benefits.

In 1990, the U.S Department of Housing and Urban Development established the Family Self-Sufficiency (FSS) program to address the work disincentive. The model fundamentally shifts the incentive structure by allowing participants to capture their increased rent payments in an escrow savings account held by the housing authority. Upon successful program completion, participants can access the account and utilize their savings to achieve financial goals and reduce reliance on public assistance.

Despite the program's well-conceived design and documented success in limited geographies, it has been underutilized and underoptimized. Thought leaders in both the housing and asset-development field have argued for years that FSS would benefit from an asset-building perspective, which local housing authorities are unfortunately ill-equipped to provide, and from expanded public-private partnership models.

Compass Working Capital

In 2010, recognizing that FSS had underutilized potential for Section 8 and public-housing residents in Massachusetts, Compass Working Capital launched an asset-building version, the first nonprofit to do so. The thought was that clients' financial-security outcomes would improve if trained financial coaches, not case managers, administered the program and if escrow funds were deployed more strategically toward asset-building goals and measurable financial-security outcomes.

After more than a year of planning, Compass launched its first FSS program in Lynn, Massachusetts, a city of about 90,000 people just north of Boston, in a collaboration with Lynn Housing Authority and Neighborhood Development (LHAND). The goals: (1) to design, test, and evaluate an asset-building model for the FSS program that would deliver better outcomes, and (2) to develop a replicable template that could help expand the scope and impact of FSS programs nationwide.

A Single Mom Tells Her Story

I received a housing voucher when I was a young mom as I was gaining my independence and becoming a responsible parent. As time went on, I found it harder and harder to save. My debts were initially small as I only had one credit card. Sadly, it didn't take long before I had maxed out more than five credit cards, making it hard for me to make the minimum payment. I found myself living from paycheck to paycheck with no relief in sight. If I considered getting another job, it felt like my increased rent would absorb my increased income. It always felt like I worked twice as hard and there was never any extra money. So I "settled" in my situation until the Compass program came along and gave me the incentive I needed.

When I initially received the Compass postcard, I thought the program seemed too good to be true. I decided to call just to be sure that I wasn't passing on a good opportunity. The program was something I have always said the system should have in place for people who receive benefits but who want to get ahead. Although I believe that subsidized housing, food stamps, Mass Health, and other programs provide great benefits, they should serve as a stepping-stone—as someone gets in, they should work to find stability for themselves and transition out so that another family that needs help has an opportunity.

I have only been in the program for five months, and I have already learned so much. My goals for the future are to go back to school, save money for my daughters' education, buy a house, and have a substantial amount of money saved to not only survive but to thrive.

Unlike the traditional FSS program, the Compass model—rebranded as "Financial Stability and Savings"—is grounded in competencies drawn from the asset-building field. Compass financial coaches provide rigorous and data-driven coaching for FSS participants to help them become financially secure. Workshops led by volunteer financial-services professionals help participants establish skills, confidence, aspirations, and practices that are predictive of future financial well-being. Participants also receive ongoing, customized financial coaching to help them reach targets in five core areas: income and employment, credit and debt, savings, utilization of high-quality financial services, and asset development.

As they increase their earned income, part of their rent goes into an escrow savings account. Compass helps participants target their savings toward asset-development goals, including postsecondary education, small business development, homeownership, and credit repair.

Early data from the program have been promising.[2] By the end of fiscal year 2013, approximately 21 percent of the Section 8 population in Lynn had enrolled in the FSS program (33 people before Compass arrived and 124 after)—a figure nearly four times the national average.

The majority of Lynn clients are working, single females heading households with children. (See "A Single Mom Tells Her Story.") Approximately 60 percent are Hispanic. Of those participating in the program for a year, 68 percent increased their credit score (average increase, 43 points) by August 31; 60 percent reduced their debt burden by an average of $3,801; 63 percent increased their earned income by an average of $7,676 per year; and 63 percent reduced their utilization of public benefits by an average of $5,600. In addition, 63 percent had started to save in their escrow accounts, with an average savings of $1,245.[3]

The first replication of the Lynn effort that Compass launched was with the Cambridge Housing Authority (CHA) in August 2012. An institution with nationally respected leadership and results, CHA provides Compass with an opportunity to demonstrate proof of concept in a larger urban market. In addition, as a Moving to Work housing authority, CHA enjoys programming flexibility that more-traditional housing authorities lack.[4] That autonomy helps to fuel innovation, including a focus on subsidized housing as a platform to promote family self-sufficiency.

Early and impressive results from Cambridge confirm the Compass hypothesis about the value of integrating asset-building strategies into the FSS model. After just one year, Compass enrolled 80 Section 8 clients in the program. Interestingly, despite demographic differences between Lynn and Cambridge, enrollment patterns are equally strong, suggesting that the model has the potential to scale across communities, both locally and nationally.

Looking Ahead

Compass is planning two additional replications in 2014–2015, focusing on partnerships with large urban housing authorities in Massachusetts. The plan is to grow from serving 255 families in the current year to 1,865 per year by fiscal year 2016 and to develop a plan for disseminating the model more broadly.

The program is a replicable model for helping working, low-income families in subsidized housing save, build assets, reduce their reliance on public assistance, and become financially stable.[5] Accelerated growth at the local and state level over the next several years should also lead to an ability to influence field-related practice and policy nationwide. Robust data analysis in the early sites will help the program make the case that it is a best practice worthy of adoption by public-housing authorities.

Limited turnover in the Section 8 and public housing market, combined with long waiting lists, often make it difficult for the most vulnerable families to obtain housing assistance. By helping participants increase their earnings, build assets, and pursue homeownership opportunities, FSS has the potential to free up vouchers by helping more families transition out of subsidized housing and achieve financial security.

Sherry Riva *is the executive director of Boston-based Compass Working Capital. Contact her at sherry@compassworkingcapital.org.*

Endnotes

1 See "More than a Roof: Case Studies of Public Housing Agency Initiatives to Increase Residents' Economic Security" (white paper, Center for Housing Policy, Washington, DC, January 2012); Josh F. Olds, "A Road to Stability," *Boston Globe*, November 29, 2012; Nicole Wallace, "Innovative Nonprofit Programs Help Low-Income People Build Their Savings," *Chronicle of Philanthropy*, March 28, 2013; and Nicole Wallace "Little-Known Federal Program Boosts Work of Boston Anti-Poverty Group," *Chronicle of Philanthropy*," March 23, 2013.

2 "Compass Financial Stability and Savings Program Pilot Evaluation: Second Year Report" (report, Institute on Assets and Social Policy, Heller School, Brandeis University, Waltham, Massachusetts, April 2013).

3 Because there is a rolling enrollment, the percentages are based on the number of people in the program at a given time. For research on the connection between a sense of financial control and well-being, see http://www.theguardian.com/money/2010/jun/16/happiness-financial-planning-aviva.

4 For an explanation of Moving to Work, see http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw.

5 Challenges remain. The number one obstacle is limited funding for program coordinators at the national level. See Reid Cramer, "Family Self-Sufficiency Program: An Asset-Building Opportunity," *Shelterforce* 137 (September–October 2004), http://www.shelterforce.com/online/issues/137/FSS.html. Also, because it's a voluntary program, expanding it means bringing on more housing authorities that share a belief that subsidized housing can be a platform for economic mobility.

VIEWPOINT

The Self-Sufficiency Challenge

Erin Graves
FEDERAL RESERVE BANK OF BOSTON

Programs to help people in poverty have myriad benefits, but don't expect them to accomplish what historically only large-scale structural changes have accomplished.

Maria, an African American resident of Boston's troubled Roxbury neighborhood, knows what's wrong with neighborhood revitalization programs: they're insufficient. "In probably 80 percent of this inner-city Boston area, the demographic situation is just horrible. It would need like a complete overhaul," she says.

The Programmatic Approach

Over the past two years, a fellow researcher and I talked to Maria and hundreds of others in her neighborhood to learn about the impact of a federal foreclosure-intervention program called the Neighborhood Stabilization Program. Much more often than they discussed foreclosures, residents talked about the onslaught of crime, antisocial behavior, low levels of employment, and how underperforming institutions like the police and schools left neighborhood so broken that most doubted it could be fixed through a single repair like foreclosure intervention.

This was not the first time in my experience as an academic researcher, policy analyst, and resident in redeveloped public housing that I have seen housing policy attempt to apply short-term, programmatic solutions to attack problems caused by long-term external forces. The same thing is happening in attempts to promote self-sufficiency using housing programs.

Looking at the evidence through a socioeconomic lens reveals a disconnect between our understanding of the causes of social problems and their proposed solutions. Attempts to move housing-program participants to self-sufficiency are undermined by what many experts regard as "structural forces": the economic shift away from an industrial economy, a legacy of anti-urban policies, ongoing racial discrimination, and inadequate and unequal distribution of resources. If structural forces are key, then increasing economic mobility for people is more a matter of political will than programmatic design.

Two of the best-known programs associated with contemporary public-housing reform are the Housing Opportunities for People Everywhere (HOPE) VI program (1992–2010), which promoted the redevelopment of public-housing projects into mixed-income developments, and the Moving to Opportunity (MTO) demonstration (1992–2002), which sought to relocate poor families to middle-income neighborhoods. Both programs were based on the belief that moving people out of high-poverty public-housing projects and into higher-income and less racially segregated communities would improve their economic mobility. Moving to Opportunity, in particular, recruited motivated families who wanted a better life for themselves and their families.

But neither of the programs could address the broader social and economic trends that caused the misfortune found in high-poverty neighborhoods: civic infrastructure worn from years of divestment, discriminatory behavior practiced by employers, brokers, or fellow citizens, and the fact that some jobs have moved to the suburbs and others have left the country entirely.[1] Temporary and targeted housing programs were being asked to intervene in ongoing processes that have proven durable and pervasive.

Looking at the evidence through a socioeconomic lens reveals a disconnect between our understanding of the causes of social problems and their proposed solutions.

After 20 years of program implementation, an assessment indicates that the programs helped many people get by but were ineffectual when it came to helping them get ahead. It's important that housing programs have helped ease the burdens of poverty, and residents' quality of life has improved. But the programs have not helped residents achieve economic mobility: residents have made few gains in terms of employment, earnings, or reduction of welfare use.

While certainly some of the outcomes can be attributed to program implementation, details about some participants' attempts to move to housing in low-poverty suburbs illustrate the consequences of the long-term structural trends. Participants encountered instances of racial discrimination, especially in their housing searches. Neither the new neighborhood nor the new neighbors proved a source of job leads. Participants also reported a lack of decent, affordable housing, since the suburbs are dominated by single-family (and therefore relatively expensive) homes.

The absence of public transportation reduced the accessibility of suburban locations. Some participants did live for a time in more racially integrated environments. But in those cases—according to interviews—people who moved, especially the movers' sons, encountered racial stereotypes and reported feeling that both the neighbors and police regarded them as ghetto thugs.

Explanations for the disappointing findings abound, but the fact is that housing-program participants confronted structural problems—a general lack of jobs, a country uncomfortable with racial and economic mixing, and a legacy of policies concentrating the poor into geographic areas. The structural problems were what ultimately thwarted participants' aspirations of self-sufficiency.

Income Mobility

What does all of this mean for housing? Most important, let's measure housing programs against their core competency—improving poor people's housing. Solid evidence shows that good housing programs improve quality of life. But efforts to use housing to move people to self-sufficiency have usually demonstrated the intractable nature of poverty and the significant structural barriers to getting ahead. Perhaps housing programs should set the more modest—but fundamentally important—goal of helping people get by.

What does this mean for an income-mobility agenda? Clearly, a structural approach is needed. What might that look like? Policies that intend to effect structural changes by enacting durable and pervasive interventions do exist. The Community Reinvestment Act is a housing policy that takes a structural approach. It has shown robust outcomes in the specific area in which it seeks to effect change: increasing lending to low-income minority families. In creating the act, Congress assumed that scale would be instrumental to the program's success and aimed to uniformly apply lending standards to all marginalized neighborhoods.

Structural changes can also be made outside the housing arena. For example, governance that features a regional tax base and decisions that are made equally by both urban and suburban populations would address the perennial call to make greater investments in education by expanding school districts. Another structural approach would be increasing the minimum wage, an effort that has been gaining momentum. What such efforts have in common—and what makes them different from public-housing programs—is that they aim to impact all poor people, all the time.

A smattering of evidence suggests that increasing economic mobility for those at the bottom of the economic spectrum is also in the hands of everyday people, who could support a tax policy more similar to those of other developed nations. Those countries facilitate lower- and middle-class mobility by requiring, in the words of one observer, "more money from the middle class itself."[2]

The programs helped many people get by but were ineffectual when it came to helping them get ahead.

Of course, the middle class feels so squeezed financially that it is hard to ask for more. But members of the middle class possess something important beyond financial capital, and that is human and social capital. They tend to have not just more money, but more skills and social connections than poorer people, who can benefit simply from living closer in more mixed communities.

One study found that the location—quite literally—of the middle class does matter for income mobility of the poor.[3] Using data from the United States, researchers concluded that the metropolitan areas that had greater dispersion of poor families in metropolitan neighborhoods also tended to have higher upward mobility.

That may be a surprising result, given that programs specifically designed to promote mixing were not successful. But it is important to note that the patterns the researchers identify reflect a general pattern of residents' voluntary locational choices, not programmatic prescriptions. In addition, as the researchers caution, one does not know if spatial mixing alone caused economic mobility or if the patterns identified could reflect middle class preference for diversity and a more general willingness to engage with poorer people and their needs and concerns. In other words, the middle income families who choose to live in more economically mixed regions might be more willing to leverage their economic, human, and social capital to elevate their less well-off neighbors.

Occasionally, social science is accused of belaboring the obvious. Some may argue that the results from HOPE VI and MTO regarding the impact of bad neighborhoods seem unnecessary. It is common sense that it is harmful to live in a neighborhood with high levels of violence and poorly performing schools. But it is possible that an experiment was necessary to learn that providing access to harmless neighborhoods is not sufficient to help even motivated, disadvantaged people enter into the economic mainstream.

Decent, safe, and affordable housing can help poor families get by, but changes in the attitudes and behaviors of an entire society are needed to help them get ahead.

Erin Graves *is a senior policy analyst in Regional and Community Outreach at the Federal Reserve Bank of Boston. During her graduate studies, she lived in a HOPE VI mixed-income development, with the intention of learning more about the lived experience of poor people who are targets of housing policy. Contact her at erin.m.graves@bos.frb.org.*

Endnotes

1 Erin M. Graves, "Getting By vs. Getting Ahead: The Burden on Housing Programs" (Federal Reserve Bank of Boston Discussion Paper, forthcoming).

2 Eduardo Porter, "Combating Inequality May Require Broader Tax," *New York Times*, November 28, 2012.

3 Ben Olinsky and Sasha Post, "Middle-Out Mobility—Regions with Larger Middle Classes Have More Economic Mobility" (white paper, Center for American Progress, Washington, DC, September 4, 2013).

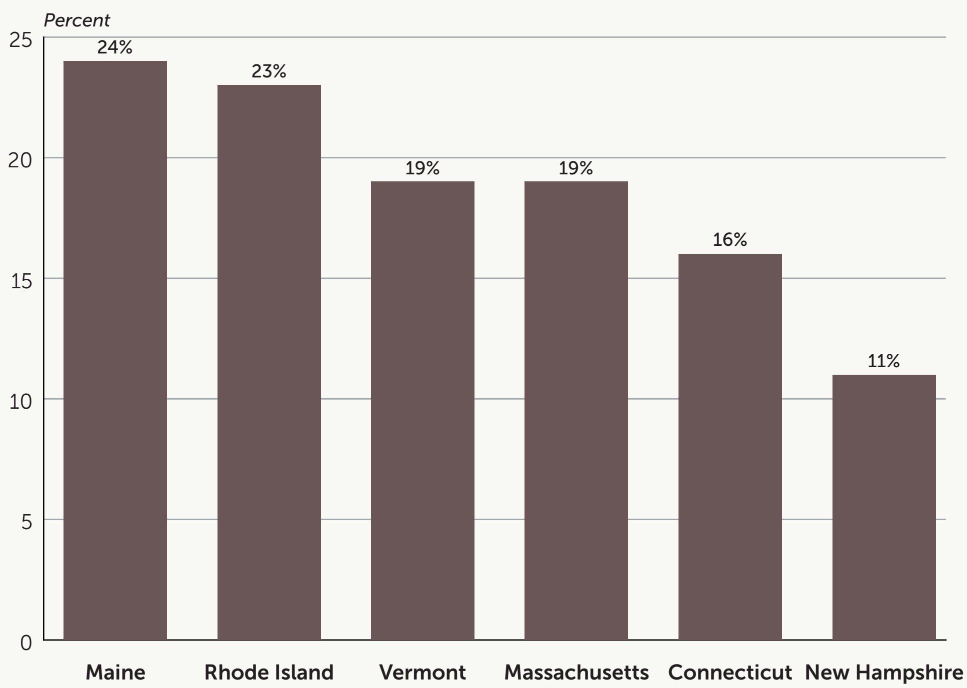
Mapping New England

Distance to Closest SNAP (Food Stamp) Outlet, by Census Tract

Kaili Mauricio
FEDERAL RESERVE BANK OF BOSTON

The Supplemental Nutrition Assistance Program (SNAP) helps feed almost 50 million people in the United States each year. In November 2013, SNAP experienced an adjustment, and beneficiaries saw their food budgets cut by around 5 percent. In 2013, the average person in New England received around $129 per month in benefits, only about $1.40 in assistance per meal. The United States Department of Agriculture indicates that the cheapest monthly food-plan cost for individuals aged 19 to 50 is $182 (for males) and $162 (females).[1]

Percentage of Households Receiving SNAP Benefits

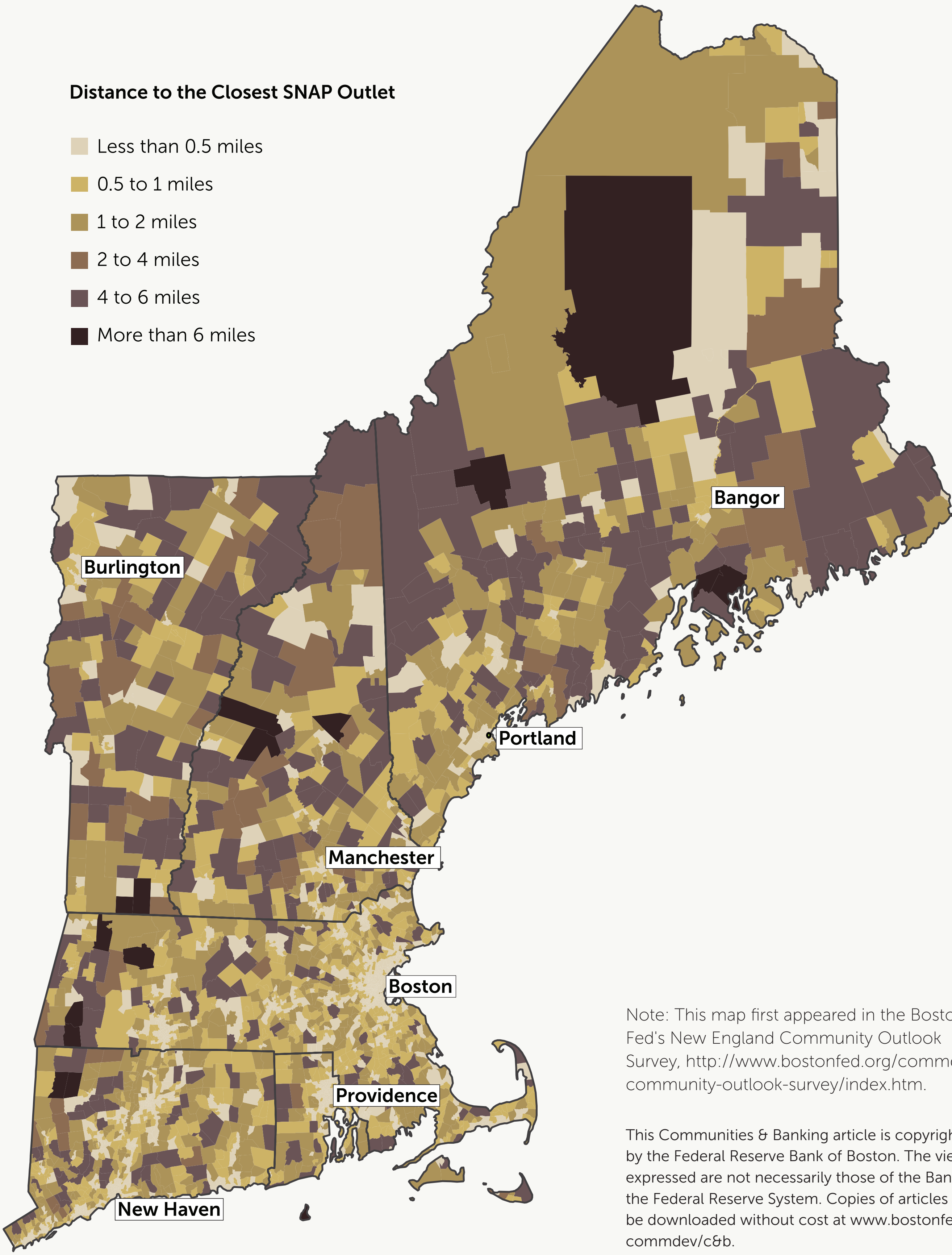


Source: USDA 2012 and American Community Survey 2012 1 year estimates.

Regardless of the amount the benefit provides, it relies on beneficiaries' access to outlets that accept food stamps. Almost one in four households in Maine receives SNAP benefits, but not all of them can walk to a store where they can use those benefits. The map estimates the distance from the population center of each census tract to the closest outlet that accepts SNAP benefits.

All six states have at least one tract that is more than six miles from the closest SNAP outlet. In Maine, there are more than 19,000 beneficiaries living more than six miles from the closest SNAP outlet. Even the more urban states, like Massachusetts, have a distance barrier, with close to 6 percent of the population more than four miles from the closest SNAP outlet.

[1] "Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average," U.S. Department of Agriculture, Center for Nutrition Policy and Promotion, June 2013, http://www.cnpp.usda.gov/Publications/FoodPlans/2013/CostofFoodJun2013.pdf.



Note: This map first appeared in the Boston Fed's New England Community Outlook Survey, http://www.bostonfed.org/commdev/community-outlook-survey/index.htm.

The Scourge of Dropping Out

Victoria Fahlberg

Keeping truants in school requires broad collaboration—and willingness on the part of all concerned to ask, Am I part of the problem?

In 2003, as the director of the immigrant organization One Lowell, I was approached by a Cambodian woman whose son was being dropped from the school roll because of multiple absences. He was not being given the opportunity to make up the absences or being invited back to school the following year. His housemaster, or assistant principal, asked his mother to take responsibility by signing him out of school although he was over the age of 16, the legal age for dropping out in Massachusetts.

Every morning the mother had dropped her son off at school. She'd received no communication from the school warning of her son's truancy. I spoke with school officials and arranged for the housemaster to meet with the mother, the son, and a translator. The

upshot was that the student was allowed to return to school the following year. He graduated from high school and later from our local community college.

The incident gave me insight into the difficulties parents face advocating for their children in public schools, especially parents with limited English.

When Students Drop Out

According to the Center for Labor Market Studies at Northeastern University, an estimated 16 percent of all 16-to-24-year-olds nationwide—nearly one out of six—dropped out of high school in 2007. (See "High School Dropout Rates.") Roughly a million of those enrolled would eventually drop out. The total number of dropouts between the ages of 16 and 24 was nearly 6.2 million that year—60 percent male and 30 percent Hispanic. Among all men in that age group, nearly one out of every five dropped out of school.[1]

The Cost to Individuals

When students drop out, they often end up engaging in antisocial behaviors or developing mental health problems. Their lack of job skills may handicap them permanently and even negatively impact their children and future generations.

The Center for Labor Market Studies has looked at dropping out and its impact on society. Researchers have found that, on average, 54 percent of U.S. dropouts aged 16 to 24 were jobless during 2008. Among others in the same age bracket, 32 percent of those who graduated high school were jobless, 21 percent of those with one to three years of postsecondary schooling, and only 13 percent of college graduates.[2]

The mean annual earnings of U.S. dropouts under age 25 were $8,358 in 2007. Young people with a bachelor's or advanced degree had mean earnings of $24,797—three times higher. Young female dropouts were nearly nine times as likely to be single mothers as young women with undergraduate degrees. A high share of young, unwed mothers were dependent on government assistance and in-kind transfers to support themselves and their children. Moreover, children of dropouts were at greater risk for poor nutrition and health, lower cognitive skills, and poor schooling outcomes than children of parents with at least a high school diploma.

The Cost to Society

Dropouts, and later their children, are not the only ones who suffer. Their loss is ours. Earning an estimated $400,000 less over their lifetimes means less tax revenue collected and higher costs to governments for health care and social care, which sometimes includes incarceration. Each dropout will cost taxpayers more than $292,000. In contrast, simply having a high school diploma could amount to fiscal benefits of more than $287,000 per person.

Another concern is that those with no diploma are incarcerated at a rate more than 63 times higher than for young, four-year college graduates. And incarceration is expensive. The annual cost per capita in Massachusetts alone was $43,025 in 2006.[3] When separated by gender, nearly 1 of every 10 young male high school dropouts was institutionalized on a given day in 2006–2007 versus fewer than 1 of 33 high school graduates, 1 of 100 young men with some postsecondary schooling, and only 1 of 500 who held a bachelor's degree or higher. Needless to say, offenders also are costly to victims, through damaged or stolen property, personal injury, or lost wages.

Victims may also suffer hidden costs, such as mental-health services and child-care expenses when they can't care for their children.

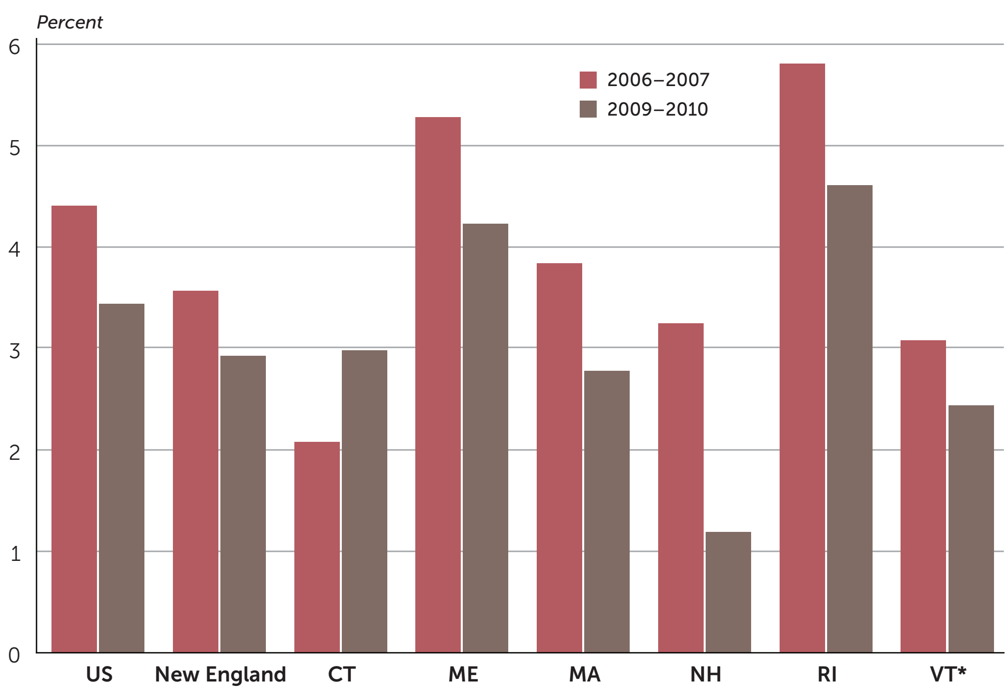
Why They Drop Out

The path to dropping out often starts in elementary school. Most students who drop out could have succeeded. In a 2006 Gates Foundation study of 457 recent dropouts nationwide, 88 percent had passing grades, and 62 percent had C's and above. Seventy percent were confident they could have graduated from high school.[4] About the same percentage said they weren't motivated or inspired to work hard in high school, and nearly half said that a major reason for dropping out was that classes were uninteresting. Dropouts, particularly those dropouts with high grade point averages, reported being bored and disengaged. Forty-five percent said that they started high school poorly prepared by their earlier schooling and that the supports that could have helped weren't available. Nearly a third said they left to get a job, 26 percent said that becoming a parent caused them to leave school, and 22 percent said they had to care for a family member. Forty-three percent reported missing so many days of school that they couldn't catch up; 35 percent reported that they couldn't keep up.

In 2006, the Massachusetts Department of Education (MDOE) organized focus groups of students representing dropouts, or those at risk of dropping out, and found results similar to the Gates study. Participants specifically addressed problems with school staff, including a perceived lack of help, recommendations to quit school, lack of respect, and poor student-teacher relationships. Participants also addressed issues such as skipping school, problems with mental, emotional, or physical health, lack of parental support, too many drug or partying influences, and family and personal problems.[5] In the Gates Foundation study, only 59 percent reported that their parents had been involved with their schooling, and of the parents who had been involved, half were involved "mainly for discipline reasons." Nearly half of the participants said that their parents' work schedules had prevented them from knowing what was going on in school. Only 47 percent reported that their parents had ever been contacted by the school about absenteeism.

The MDOE study referenced a survey completed in 2005 by 105 district leaders asking their opinions.[6] Nearly half of respondents stated that students left school because of a lack of parental support, disruptive family life, a death in the family, education not being valued in the family, parents requesting the student to discontinue education, and unspecified personal or family issues. District leaders also cited lack of academic success (46 percent), frequent truancy (40 percent), and economic needs such as full-time employment, supporting a family, and doing job training (40 percent). Similar results were found in self-assessments by 11 Massachusetts school districts.

High School Dropout Rates, 2006 and 2010



* For 2009–2010, dropout rate data from the National Center for Education Statistics is 0.25% lower than Vermont Agency of Education.

National Center for Education Statistics defines a dropout as "a student who was enrolled at any time during the previous school year who is not enrolled at the beginning of the current school year and who has not successfully completed school."

The Vermont Agency of Education defines a dropout as "an individual student who is not enrolled in an approved educational program and who has not graduated from high school."

Source: National Center for Education Statistics and Vermont Agency of Education.

Chart by Evan McCullough.

What's the Solution?

Although students and educators found similar reasons for students dropping out, they don't appear to agree on the changes that need to occur. Having worked professionally with youth at high risk of truancy in the Lowell Public Schools, I have learned that the voices of students and their parents, especially the voices of those most at risk, are often ignored. Educators must begin to create solutions by listening more and working with students and parents as equals.

> In the study, only 59 percent reported that their parents had been involved with their schooling, and of the parents who had been involved, half were involved "mainly for discipline reasons."

The initial focus must be on decreasing truancy. Absenteeism is the most common indicator of overall student engagement and a significant predictor of dropping out. The Gates study showed that clear warning signs emerge from one to three years prior to the student dropping out. Some national studies show that warning signs can be seen as early as elementary school. Another study, a small one in Lowell with 146 students, found that only 32 percent of students who were absent more than 10 times in the fourth grade were performing at the appropriate grade level by 11th grade.[7]

As at-risk students, their parents, and educators collaborate to create solutions that will reduce the dropout rate, keeping students in school—each day, starting from their first day—is paramount. Teachers must discover why a student is not in school by communicating with parents. School administrators must hire teachers who are linguistically and ethnically compatible with students. School staff, community organizations, and government systems must provide needed services. Finally, teachers must be willing to question whether they might be contributing to problems and then take steps to change. It takes a village to ensure that children are engaged and on the road to discovering the benefits of learning.

Victoria Fahlberg, *a PhD in clinical psychology, developed and implemented a truancy-prevention program for at-risk Asian, Hispanic, and Brazilian students and families in partnership with the Lowell Public Schools, increasing average attendance by 65 percent for more than 720 students since 2004 and parental involvement by over 50 percent. She is based in Lowell. Contact her at vfahlberg@comcast.net.*

Endnotes

1 "Left Behind in America: The Nation's Dropout Crisis" (white paper, Center for Labor Market Studies and Alternative Schools Network in Chicago, Northeastern University, Boston, 2009), http://hdl.handle.net/2047/d20000598.

2 A. Sum, I. Khatiwada, J. McLaughlin, S. Palma, "The Consequences of Dropping Out of High School" (white paper, Center for Labor Market Studies, Northeastern University, Boston, 2009).

3 According to A. Sum et al., about 7 percent of institutionalized young adults were living in long-term health-care facilities, while 93 percent were residing in adult correctional institutions and juvenile detention facilities.

4 J.M. Bridgeland, J.J. DiIulio Jr., and K.B. Morison, "The Silent Epidemic: Perspectives of High School Dropouts" (report, Civic Enterprises and Peter D. Hart Research Associates for the Bill and Melinda Gates Foundation, 2006), https://docs.gatesfoundation.org/Documents/TheSilentEpidemic3-06FINAL.pdf.

5 "Youth Voices: How High Schools Can Respond to the Needs of Students and Help Prevent Dropouts: Findings from Youth Focus Groups" (report, Massachusetts Department of Education, Boston, July 2007), http://www.doe.mass.edu/dropout/youthfocusgroup.pdf.

6 "Dropouts in Massachusetts Public Schools: District Survey Results" (report, Massachusetts Department of Education, Boston, April 2006), http://www.doe.mass.edu/news/news.aspx?id=2841.

7 "Attendance Patterns as a Predictor of Educational Attainment" (unpublished report prepared by the Mary Bacagalupo Forum Assessment Committee in Lowell, Massachusetts, 2007).

Making Smarter Decisions about Higher Education

Stephanie Owen and Isabel Sawhill
BROOKINGS INSTITUTION

Decisions about higher education are among the most important that young people make, but many students need better information if they are to match their choices to their aspirations.

For the past few decades, it has been widely argued that a college degree is a prerequisite to entering the middle class. On average, college graduates make significantly more money over their lifetimes than those with only a high school education.

However, the value of attending a four-year school depends on many factors, including institution attended, field of study, whether a student graduates, and postgraduation occupation. Many students—particularly lower-income students who are not knowledgeable about higher education—would benefit from more information about what is available and what they can expect from each of the options.

Variations in Educational Returns

The so-called *return to education* refers to the increase in earnings associated with additional schooling. The best economic research suggests that the return is 10 percent to 15 percent per extra year of education, which translates into hundreds of thousands of dollars over a lifetime for a four-year degree.[1]

Knowing that, on average, a college degree is a good investment can cause students to overlook important differences in what they can expect from college. The school you choose, what you major in, the field you work in after graduating—all affect your likelihood of employment and your future earnings. For example, psychology majors make only a little more than half of what engineering majors do over a lifetime.[2]

If you break down what college graduates earn by occupation, regardless of major, the differences are even more striking. The earnings premium for college graduates who go into architecture and engineering is 150 percent higher than the lifetime earnings of a high school graduate. For college graduates who work in service jobs, the premium is only about 25 percent.

The major that is chosen also affects the likelihood of finding a job. Though they don't get paid as well, education majors have an easier time finding work than architecture majors, experiencing an unemployment rate of 5.4 percent versus 13.9 percent in 2009–2010.[3]

3 Major Variations in Educational Returns

The school you choose, what you major in, the field you work in after graduating—all affect your likelihood of employment and your future earnings.

① Picking a Major

Psychology majors make half of what engineering majors do over a lifetime.

Picking the school Many low-income students don't realize that no matter how smart they are, choosing schools beneath their ability makes them less likely to do well.

Lifetime Earnings

of those who go into architecture and engineering are

150%

— higher —

than the lifetime earnings of a

high school graduate

② Likelihood of Finding a Job

Education majors have an easier time finding work than architecture majors.

Unemployment Rate
in 2009–2010

5.4%	13.9%
Education majors	Architecture majors

③ Cost of Education

Research has shown an economic benefit to attending a more selective school, particularly for minority students and students whose parents have less education. Public institutions usually offer a higher return on investment than private ones, mostly because they cost less.

And research has shown an economic benefit to attending a more selective school, particularly for minority students and students whose parents have less education.[4] Public institutions usually offer a higher return on investment than private ones, mostly because they cost less.[5]

Comparisons of the returns by highest degree attained include only people who actually complete college. Students who fail to obtain a degree incur some or all of the costs of a bachelor's without the payoff. That has implications for inequalities of income and wealth. The students least likely to graduate—lower-income students—are also the most likely to take on debt to finance their education. Fewer than 60 percent of students entering four-year schools finish within six years, and among students whose families earn less than $32,000, fewer than half do.[6]

The more selective the school, the more likely it is to graduate its students. That is to be expected, but even within selectivity levels, there are wide differences in graduation rates. Students should look for a school with a good track record for their ability level.[7]

The Information Gap

Many low-income students don't realize that no matter how smart they are, choosing schools beneath their ability makes them less likely to do well and more likely to drop out.[8] Finding the right fit is essential but can be a struggle for poor families overwhelmed by choices.

Recent evidence by Caroline Hoxby of Stanford and Christopher Avery of Harvard shows that most high-achieving, low-income students never apply to the schools they are qualified to attend, where they would be eligible for generous financial aid.[9] There is clearly room for policies that improve the matching of students to schools.

Attaching strings to grant aid can improve college persistence and completion.

Solutions may be as simple as providing targeted brochures to bright low-income students.[10] Many such students forgo attending more selective schools because they are intimidated by high sticker prices. They frequently underestimate how much aid they are eligible for and fail to claim the tax incentives that would save money.[11] For families not familiar with the process, the financial-aid system is overwhelmingly complex.

Since 2009, the Obama administration has worked to simplify the form that families fill out to receive federal aid. It also has created a Financial Aid Shopping Sheet—a personalized letter designed to "help students better understand the type and amount of aid they qualify for and easily compare aid packages."[12]

The new College Scorecard is being developed to increase transparency in the application process. A prospective student can type in a college and learn its average net price, graduation rate, loan default rate, and median borrowed amount. The Department of Education will soon add information about the earnings of each school's graduates. A multidimensional search feature allows users to find schools by location, size, and degrees and majors offered. The Student Right to Know Before You Go Act also aims to expand the data available on costs and benefits of individual schools, as well as programs and majors.

Many low-income students don't realize that no matter how smart they are, choosing schools beneath their ability makes them less likely to do well.

Most recently, plans for a rating system to identify which colleges offer the best value were announced, with a school's rating intended to influence the federal dollars it receives. The ratings would consider the factors included on the College Scorecard, with a particular emphasis on low-income students. Developing a meaningful metric of college value won't be easy, but moving beyond the black box is a good step.

Ultimately, colleges need to improve graduation rates, particularly for lower-income students, who struggle most. Currently, the country spends over $100 billion on Pell Grants and federal loans, despite any evidence that the money leads to higher graduation rates. Research on programs like Georgia's HOPE scholarships or West Virginia's PROMISE scholarships suggests that attaching strings to grant aid can improve college persistence and completion.

A student with poor grades who is on the fence about enrolling in a four-year program may find the most bang for the buck in a vocationally oriented associate's degree or some career-specific technical training. Indeed, there are well-paid job openings going unfilled because employers can't find workers with skills accessible through training programs, apprenticeships, vocational certification, or associate's degrees.

Policymakers should encourage alternatives, focusing on high-demand occupations and high-growth sectors. If the default for many lower-achieving students were a career-focused training path rather than a path that involves dropping out of college, their job prospects might improve. After all, high schools organized around an occupational focus in partnership with local employers and colleges have been shown to increase wages, hours worked, and employment stability, particularly for men at high risk of dropping out.

§

Information about the monetary return to education is not a prescription. There are important benefits to certain schools, majors, and jobs that can't be measured in dollars. But students have the right to realistic expectations. The decision about what type of postsecondary education or training to pursue should be an informed one, based on the attributes of schools and the availability of financial aid, as well as individual preferences and strengths.

Stephanie Owen, *a research associate at the Urban Institute, worked on this study when a senior research assistant at the Washington-based Brookings Institution.* **Isabel Sawhill** *is a senior fellow and co-director of the Center on Children and Families at the Brookings Institution. Contact the authors at sowen@urban.org.*

Endnotes

[1] Philip Oreopoulos and Uros Petronijevic, "Making College Worth It: A Review of the Returns to Higher Education," *Future of Children* 23, no. 1 (2013).

[2] Tiffany Julian, "Work-Life Earnings by Field of Degree and Occupation for People with a Bachelor's Degree: 2011" (U.S. Census Bureau, 2012).

[3] Anthony P. Carnevale, Ban Cheah, and Jeff Strohl, "College Majors, Unemployment and Earnings: Not All College Degrees Are Created Equal" (Georgetown University Center for Education and the Workforce, Washington, DC, 2012).

[4] Stacy Dale and Alan B. Krueger, "Estimating the Return to College Selectivity over the Career Using Administrative Earnings Data" (working paper, National Bureau of Economic Research, Cambridge, Massachusetts, 2011); and Mark Hoekstra, "The Effect of Attending the Flagship State University on Earnings: A Discontinuity-Based Approach," *Review of Economics and Statistics* 91, no. 4 (2009).

[5] Mark Schneider, "Is College Worth the Investment?" (report, American Enterprise Institute, Washington, DC, 2010).

[6] Alexandria Walton Radford, et al., "Persistence and Attainment of 2003–2004 Beginning Postsecondary Students: After Six Years" (National Center for Education Statistics, 2010).

[7] Frederick M. Hess, et al., "Diplomas and Dropouts: Which Colleges Actually Graduate Their Students (and Which Don't)" (report, American Enterprise Institute, Washington, DC, 2009).

[8] William G. Bowen, Matthew M. Chingos, and Michael S. McPherson, *Crossing the Finish Line: Completing College at America's Public Universities* (Washington, DC: Princeton University Press, 2011).

[9] Caroline M. Hoxby and Christopher Avery, "The Missing 'One-Offs': The Hidden Supply of High-Achieving, Low-Income Students" (working paper, National Bureau of Economic Research, Cambridge, 2013).

[10] Caroline Hoxby and Sarah Turner, "Expanding College Opportunities for High-Achieving, Low-Income Students," (Stanford Institute for Economic Policy Research, Stanford, California, 2013).

[11] Susan Dynarski and Judith Scott-Clayton, "Financial Aid Policy: Lessons from Research," *Future of Children* 23, no. 1 (2013).

[12] See http://www.whitehouse.gov/issues/education/higher-education.

DEBT-BUYER LAWSUITS AND INACCURATE DATA

Peter A. Holland
UNIVERSITY OF MARYLAND SCHOOL OF LAW

Advocates for lower-income families need to be aware that many debt buyers are suing the wrong people, and for the wrong amounts.

Over the past decade, banks have increasingly moved away from collecting defaulted credit card accounts in-house to a model of selling off bad accounts for pennies on the dollar to debt buyers.[1] The accounts are sold "as is," pursuant to contracts in which the banks state that the debts may not be owed, the amounts claimed may not be accurate, and documentation may be missing.[2]

Despite the broad disclaimers, debt buyers then pursue these accounts and seek to collect 100 percent of the face value of debts for which they paid only 3 percent or 4 percent of face value—sometimes much less.[3]

The people pursued are often the elderly, the poor, and low-income families with limited resources to hire a lawyer or take a day off from work to go to court and challenge dubious claims.[4] Instead, they tend to either enter into a settlement or fail to appear in court. They are then subjected to a default judgment and subsequent wage garnishment (money taken out of their paychecks). The ripple effects of a court judgment and garnishment cannot be overstated: bounced checks, family stress, impaired credit scores, and potential obstacles to the victim's ability to get a job or an apartment.

Selling Off Debt

Debt is sold at low prices when banks have little or no documentation to provide the buyer—often just an electronic Excel spreadsheet and a few monthly statements.[5] The contracts of sale between bank and debt buyer (also known as *forward-flow agreements*) typically contain broad disclaimers of warranty, including warranty of title, legality, validity, documentation, or accuracy.[6] Further, the contracts usually provide that "ineligible accounts" may be included in the bulk sales, even accounts where the debt has been paid, settled, discharged in bankruptcy, or was never owed to begin with because of identity theft or other fraud committed against the consumer.[7] One widely publicized forward-flow agreement states that the account balances are only "approximate." The sale of unverified, inaccurate, and incomplete accounts has led to consumers getting sued twice on the same debt and to reports of abuse by debt collectors, some with criminal backgrounds.[8]

These and other issues resulting from the sale and subsequent attempts to collect on junk debt have drawn increasing attention from regulators, courts, and the media.[9] In one instance, the Office of the Comptroller of the Currency (OCC) found that a bank's collection lawsuits involved the following behaviors:

- filing affidavits which the bank falsely represented as based on personal knowledge;
- filing inaccurate sworn documents that resulted in "judgments with financial errors in favor of the Bank";
- filing "numerous affidavits that were not properly notarized";
- failing to have proper procedures in place to ensure compliance with the Servicemembers Civil Relief Act;
- failing to devote sufficient resources to properly administer its collections litigation processes;
- failing to devote adequate controls, policies, and training to its collection litigation processes; and
- failing to sufficiently oversee outside counsel and other third-party providers handling collection-litigation services.[10]

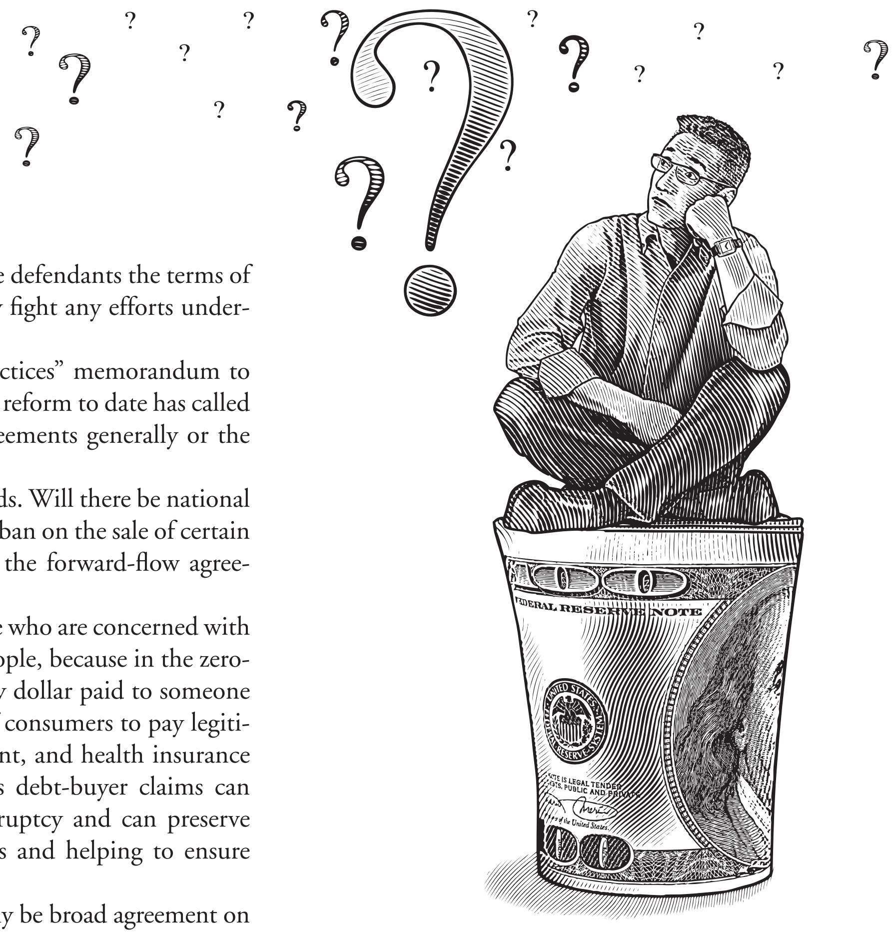
The OCC also found data-integrity problems in the bank's sale of charged-off accounts to debt buyers.

Ineligible accounts may be included in the bulk sales, even accounts where the debt has been paid, settled, discharged in bankruptcy, or was never owed.

Hidden Agreements

The problems inherent to the business model are most starkly exposed in the context of lawsuits filed by debt buyers. On the one hand, the debt buyer acknowledges in the forward-flow agreement that the data it received from the bank is limited and potentially inaccurate, with frequent specific disclaimers of warranty of title, validity, accuracy, and documentation.

On the other hand, despite explicit knowledge that the specific accounts are highly suspect, debt buyers argue in court that the allegations about ownership, liability, and amount are "inherently reliable" because the data came from a highly regulated national bank, which has a duty to keep accurate records. All the while, the debt



buyers fail to disclose to the courts or to the defendants the terms of the forward-flow agreements, and typically fight any efforts undertaken by consumers to obtain them.

The OCC recently issued a "best practices" memorandum to deal with some of the issues.[11] However, no reform to date has called for the disclosure of the forward-flow agreements generally or the disclaimers of warranty specifically.

Regulators and courts are at a crossroads. Will there be national standards on data integrity? Will there be a ban on the sale of certain accounts? Will disclosure of the terms of the forward-flow agreements be mandated?

These are important questions to those who are concerned with the economic viability of lower-income people, because in the zero-sum game of their monthly expenses, every dollar paid to someone with a dubious claim impairs the ability of consumers to pay legitimate creditors for car loans, mortgages, rent, and health insurance premiums. Successfully challenging bogus debt-buyer claims can keep low-income consumers out of bankruptcy and can preserve precious assets for paying legitimate debts and helping to ensure family and community stability.

Sometime this year, there will very likely be broad agreement on national standards and best practices for data integrity and for banning the sale of certain types of accounts. But any reforms will probably have little effect unless banks and debt buyers are required to disclose the terms, conditions, and specific warranties and disclaimers contained in the forward-flow agreements. Shining a light on the red flags identified in those agreements should help preserve low-income community resources by reducing the number of lawsuits and judgments against the wrong people for the wrong amounts.

Peter A. Holland *is director and clinical instructor at the University of Maryland School of Law Consumer Protection Clinic. Contact him at PHolland@law.umaryland.edu.*

Endnotes

[1] See Robert M. Hunt, *Collecting Consumer Debt in America*, http://www.philadelphiafed.org/research-and-data/publications/business-review/2007/q2/hunt_collecting-consumer-debt.pdf.

[2] Jeff Horwitz, "Bank of America Sold Card Debts to Collectors Despite Faulty Records," *American Banker*, March 29, 2012, http://www.americanbanker.com/issues/177_62/bofa-credit-cards-collections-debts-faulty-records-1047992-1.html.

[3] According to a January 2013 study by the Federal Trade Commission, the average price contained in more than 5,000 debt portfolios of sale was four cents on the dollar. See "Structure and Practices of the Debt Buying Industry," http://www.ftc.gov/os/2013/01/debtbuyingreport.pdf.

[4] "Debt Deception: How Debt Buyers Abuse the Legal System to Prey on Lower-Income New Yorkers" (report, Neighborhood Economic Development Advocacy Project, New York, May, 2010), http://www.nedap.org/pressroom/documents/DEBT_DECEPTION_FINAL_WEB.pdf.

[5] Debt buyers rarely receive and can rarely obtain full documentation of the debts, such as account statements or the contract terms and conditions.

[6] Dalie Jimenez, "Illegality in the Sale and Collection of Consumer Debts" (2013), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2250784.

[7] See, for example, the forward-flow agreement from FIA Card Services to CACH, LLC, https://www.documentcloud.org/documents/329733-fia-to-cach-forward-flow.html.

[8] Maria Aspan, "Borrower Beware: B of A Customer Repaid Her Bill yet Faced a Collections Nightmare," *American Banker* (March 29, 2012); and Jake Halpern, "Pay Up: A Debt Collector Struggles to Stay Out of Debt," *New Yorker*, October 11, 2010, http://www.jakehalpern.com/books/Finished%20Collection%20Piece.pdf.

[9] Jeff Horwitz and Maria Aspan, "OCC Pressures Banks to Clean Up Card Debt Sales," *American Banker*, July 2, 2013; Maria Aspan, "Wells Fargo Halts Card Debt Sales as Scrutiny Mounts," *American Banker*, July 29, 2013; Jessica Silver-Greenberg, "Boom in Debt Buying Fuels Another Boom—In Lawsuits," *Wall Street Journal*, November 28, 2010.

[10] See http://www.occ.gov/static/enforcement-actions/ea2013-138.pdf.

[11] "Shining a Light on the Consumer Debt Industry," July 17, 2013, http://www.occ.gov/news-issuances/congressional-testimony/2013/pub-test-2013-116-oral.pdf.

Business Loans to Low-Income Entrepreneurs

Nonprofit lenders are removing the barriers to loan capital for lower-income entrepreneurs who are starting or growing businesses.

Martin Hahn
COMMUNITY CAPITAL OF VERMONT

Low-income entrepreneurs face challenges in obtaining capital to start or grow a business. Fortunately, the community development lending industry has stepped up to the plate. Focused research from the FIELD program at the Aspen Institute has documented how community development lending to U.S. microenterprises has assumed an increasingly significant role in both economic development and poverty alleviation nationwide.[1] In a rural New England state, Community Capital of Vermont (CCVT) has been part of that movement.

Community development small business lenders serve people with viable ideas whose low-income status may prevent them from qualifying for a bank loan. They are people such as these:

Kelly

Kelly, who had a vision to grow her small, side-street hair salon into a Main Street business with a large picture window, lots of light, and space for a boutique selling one-of-a-kind fashions.

Sean

Sean, who suffered a serious injury logging timber in Vermont's Northeast Kingdom and decided it was time to return to trucking, the work he loved—staying safely on paved roads—by starting a long-distance trucking operation.

Janice

Janice, whose success creating a product with a following—Vermont Kale Chips—was leading her from a small food-venture incubator, where she shared space, to a larger production facility. Poised for growth, she was ready to catch the wave of Vermont's Farm to Plate initiative.

Chris

Chris, a talented carpenter and designer, who was eager to enter the highly competitive custom-furniture arena using social-marketing and pop-up sales.

Yvonne

Yvonne, born and raised in a small Vermont town, who wanted to launch a Main Street party-supply store after several years as a stay-at-home mom.

Although their businesses take many forms, these lower-income entrepreneurs have all benefitted from a CCVT loan to start or grow their ventures.

Loan Needs in Vermont

CCVT is a nonprofit micro and small business lender. The bulk of the organization's loan capital is Community Development Block Grant funds. The capital "revolves" as borrowers make loan payments and funds are deployed to other borrowers. CCVT is certified as a community development financial institution and is a designated Small Business Administration microloan intermediary. Its mission is to help small businesses and lower-income entrepreneurs prosper through the provision of flexible business financing. A stepping-stone for entrepreneurs, it helps them build the sales, experience, and credit to become sustainable and bankable businesses in the future.

CCVT's loans range in size from $1,000 to $100,000 and can be used for a start-up or for a company's growth and expansion. Borrowers are in sectors such as retail, service, and manufacturing. Most often, the borrowers are low income, but sometimes it is the employees who are. Or CCVT may see a compelling community need, such as investment in a distressed downtown. Technical assistance also is available to support borrowers. Overall, CCVT has provided $5 million in small business loans to 200 businesses since 1995, 80 percent of which were to lower-income borrowers. Seventy-three percent went to pre-venture or start-up businesses, and 55 percent to women-owned businesses.

Small business revolving loan funds like CCVT's help applicants who face challenges qualifying for a traditional business loan. These are typical issues:

- limited personal savings and no "friends and family" network with savings to invest in the business;
- a low or nonexistent credit score;
- a major personal, credit, or employment crisis signaling risk, such as bankruptcy or medical debt;
- insufficient collateral, such as no guarantors, no real estate, or no personal property equity;
- no second income in the household to cushion periods of poor cash flow in the business; and, importantly,
- limited business management experience.

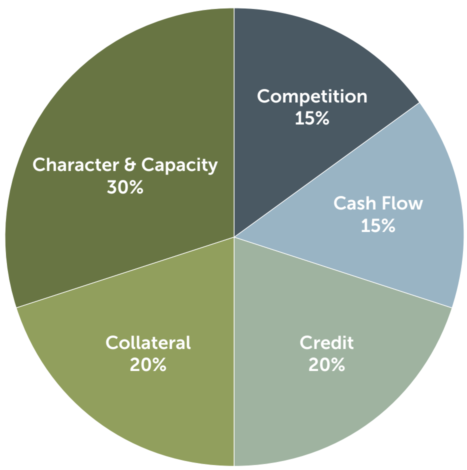
Given that the risks are so varied, it is critical to ask what an applicant's overall strengths and weaknesses are. No single criterion should be the sole cause for denying a loan. CCVT has no threshold criterion such as a credit score exceeding 600 or a loan-to-value ratio less than 1:1.

Like most commercial lenders, however, community development lenders must evaluate an application using the "five C's" of underwriting: credit, collateral, character, competition, and cash flow. CCVT aims for a full picture of creditworthiness by applying weights to the five C's. (See "The Five C's of Lending.")

The most heavily weighted component of CCVT's underwriting—character—can be the most difficult to score. CCVT assesses how responsive the applicants are in working with a loan officer, how well they communicate in writing and in conversation, how deep their experience in their industry is, what business management experience they have, and how strong their connections are to the community where their business is located.

Balancing risk factors allows a strong factor to outweigh a poor score on another factor. For example, Kelly, the salon owner, was approved for a $9,000 loan even though CCVT valued her collateral at $5,000. The risk seemed reasonable because of the cash flow Kelly was generating in her original location and because

Weighing Risk



Source: Community Capital of Vermont

of the compelling case she made in her business plan (scored in "competition/market").

Yvonne, who opened a party-supply store in a small downtown, received a $39,000 loan despite the risks associated with small-scale retail establishments (scored in "competition/market"). Her family's deep connections in the community and her above-average credit score were decisive.

A Unique Kind of Lending

CCVT and nonprofit lenders nationwide have learned that not only does a holistic approach to underwriting improve the chances of success investing in lower-income businesses, but that providing a fixed interest rate can be important, too. Fixed rates support more predictable cash flow, allowing borrowers to roll closing costs into their loan if they have limited cash reserves. Affordable origination costs also help borrowers. A $25,000 loan from Community Capital, for example, may have closing costs of $85, including lien filings. (In Vermont, the closing costs are offset by a grant from the state.)

Community development lenders also consider not just the financial value of having borrowers itemize their collateral but the psychological value. Borrowers will work hard to protect against the loss of something they value, such as their woodworking tools or recreational vehicles. In cases where an owner's collateral is limited, community development lenders may ask for a limited guarantor or a cosigner. CCVT is often undercollateralized, and therefore maintains high loan-loss reserves to compensate for the deficiency.

Community loan applicants are expected to make some investment of cash or "sweat equity" in their business, often being evaluated on the degree to which their investment is in accordance with their ability. CCVT allows for interest-only payments up to six months in the beginning of a loan if entrepreneurs need to finish leasehold improvements, ramp up sales, roll out new products, or give marketing campaigns time to work.

Borrowers with limited or no experience managing business finances and who have credit issues must have their loans disbursed directly to a third party, such as a supplier. That strategy minimizes the risk that the borrower will mismanage the loan dollars and allows CCVT to fully understand its collateral position.

In addition, many microenterprise lenders offer postloan technical assistance to support a business through the stages of growth. CCVT conducts a site visit at least annually (monthly for some) to ensure that the borrower-lender relationship remains open and cordial. Direct support, either through staff or consultants, includes assistance in preparing financial reports, expertise offered for inventory management and point-of-sale systems, and branding and marketing.

A balanced review of risk during the loan underwriting process does not, however, guarantee success, and Community Capital's loan losses exceed what a commercial lender would find acceptable. In 2013, CCVT expects to post 7 percent of their notes receivable as bad debt. For CCVT's board, staff, and funders, such losses are offset by the jobs and wealth generated by the successful borrowers, who otherwise would not have had access to capital for their business.

Providing loan capital to lower-income entrepreneurs also is important from a public policy perspective because it supports economic development, spurs new investment in communities, and creates jobs. At the same time, it represents investment in the aspirations of people who have been denied conventional credit. Entrepreneurs borrowing from community development lenders—including CCVT clients Kelly, Sean, Janice, Chris, and Yvonne—are an inspiration to continue developing the tools that remove barriers to credit.

Martin Hahn *is the executive director of Community Capital of Vermont, a statewide nonprofit microenterprise lender based in Barre. Contact him at mhahn@communitycapitalvt.org.*

Endnote

[1] In a FIELD study, "those pursuing business ownership experienced income growth over time. Low-income individuals show particularly strong growth in income." Moreover, "the businesses owned by low-income individuals can and do contribute to the local economy." See Elaine Edgcomb and Joyce Klein, "Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the US" (white paper, FIELD, Aspen Institute, 2005), http://fieldus.org/publications/fulfillingthepromise.pdf.

photos courtesy of Penobscot River Restoration Trust

FREE-FLOWING WATERS

Collaborating to Revitalize Human and Wildlife Communities

John Banks
PENOBSCOT INDIAN NATION

Laura Rose Day
PENOBSCOT RIVER RESTORATION TRUST

Penobscot River Restoration ceremony at the Veazie dam in July 2013.

Unlikely partners join forces to restore depleted sea-run fisheries while maintaining hydropower on New England's second-largest river.

On July 22, 2013, as bald eagles soared overhead, Penobscot Indian Nation elder Butch Phillips performed a traditional smudging ceremony to honor the most critical step yet toward the rebirth of the Penobscot River—the breaching of the Veazie dam. Hundreds of people, including members of the Penobscot tribe, elected officials and staff of federal, state, and tribal government agencies, and local residents, watched as large hoe rams cracked concrete and the waters began to flow. What started as a trickle soon became a wide breach through which sea-run fish would be able to migrate freely between the river and the sea for the first time in more than a century.[1]

The River

The Penobscot is the largest river in Maine and the second-largest in New England. It traverses an 8,750-square-mile watershed from the mountains to the sea, through rural inland communities and the Penobscot Reservation to the Gulf of Maine. In the past, abundant native sea-run fish—Atlantic salmon, river herring, sturgeon—fueled a productive ecosystem and valuable commercial and recreational fisheries. Today, the river is nearly devoid of native fish. The National Research Council, among others, considers opening the river essential for reversing the losses.[2]

The Veazie removal is a milestone in the Penobscot River Restoration Project, an innovative collaboration recognized globally for bringing together unusual partners—the Penobscot Indian Nation, state and federal agencies, conservation organizations, hydropower companies, and communities.[3] After decades of regulatory struggle that merely preserved the status quo, there emerged a focus on rebuilding trust and identifying common interests. Through listening, perseverance, creativity, risk sharing, and giving meaningful consideration to past public input, the parties were able to come up with an approach broad enough to support landscape-scale ecological and energy solutions.

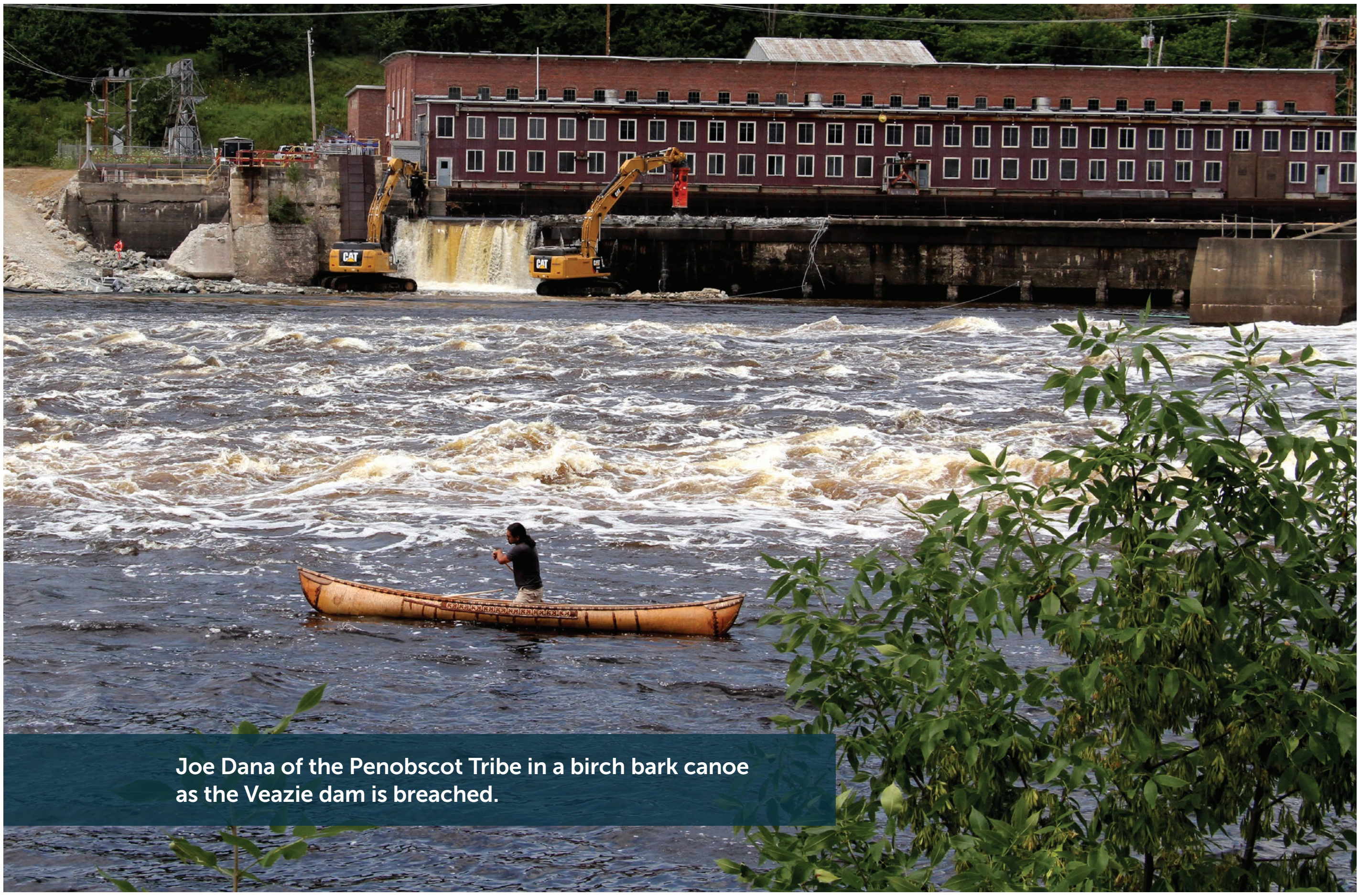
The nonprofit Penobscot River Restoration Trust became the owner of three dams and removed the two nearest the sea—the Great Works dam in 2012, the Veazie in 2013. Next, the Trust will decommission and build a fish bypass around the Howland dam, which blocks access to key inland habitat. In parallel, supported by the Penobscot Trust and other partners, Black Bear Hydro Partners LLC has increased power at other locations in the watershed to maintain or even increase overall hydropower generation. It also has improved fish passage at other Penobscot dams. Overall, the project will significantly boost access to nearly 1,000 miles of historic habitat for native sea-run fish, such as river herring, American shad, and the endangered Atlantic salmon.

Rebuilding the Penobscot River fisheries and free-flowing waters is expected to diversify the river's natural assets, benefitting people and wildlife throughout the region.[4] The Penobscot Project already has generated tens of millions of dollars in public and private investment and hundreds of restoration-related engineering, science, and contractor jobs for numerous companies, mostly local. Billions of juvenile fish, especially river herring migrating downstream to the ocean, will once again feed struggling ocean fisheries for cod and other valuable commercial groundfish.[5] Improved water quality will be reflected in more diverse and abundant aquatic life. Benefits to birds and other wildlife will contribute to Maine's multimillion-dollar wildlife-watching business, too.

Penobscot Indian Nation

The Penobscot Indian Nation and its members cherish the region, which their ancestors have inhabited for more than 10,000 years. Penobscot people consider the well-being of river and tribe to be inseparable. Both the river's name and the tribe's name come from *penawapskewi,* a word describing the lower river's rocky landscape. The tribe sees the restoration of the river's ecological integrity as essential to its way of life. Penobscot Nation Chief Kirk Francis says, "We are the river, and the river is us. So it follows that river restoration and cultural survival are inextricably linked." He describes the Penobscot Project as the most significant conservation effort in the tribe's history.

Under treaties with the United States, the tribe retains sustenance and ceremonial fishing rights. The opportunity to exercise those rights, however, has long been undermined because few sea-run fish were capable of reaching reservation waters, blocked by dams. With the two lower dams gone, sea-run fish can swim to just below the Penobscot reservation for the first time in generations. As native fish species recover, there will be more meaningful opportu-



Joe Dana of the Penobscot Tribe in a birch bark canoe as the Veazie dam is breached.

nities for tribal members to exercise the rights that lie at the heart of Penobscot culture.

Likewise, the Penobscot Nation's aspirations for ecologically and culturally sustainable economic enterprise, such as recreational fishing and cultural tourism, will be enhanced by a river that supports native fish and wildlife as it once did. The new amenities and restored wildlife will benefit both individual guides and programs such as the Wabanaki Cultural Tourism Initiative restoring native fish. The time is ripe to accommodate burgeoning public interest in experiential tourism, with its emphasis on integrating a region's ecology, history, and culture.

Susan Hammond, executive director of four tribes' Four Directions Development Corporation, expects the restored river to enrich the region's outdoor recreation and tourism and showcase tribal culture and history. "For the first time in generations, people can experience culturally significant features, including cascading rapids where Penobscot ancestors once paddled birch bark canoes and rocky ledges where they scraped hides. A Penobscot River where native sea-run fish and wildlife flourish will be an asset to entrepreneurs, who can offer powerful opportunities for people to enjoy the river's natural beauty, culture, and adventure."[6]

Local Business

Scott Phillips is one local entrepreneur. A tribal member, champion whitewater canoe racer, and owner of Northeast Outdoor Sports, he views the newly opened river, with its riffles, rapids, and previously buried wild features, as a business opportunity.

"We need to do everything possible to promote business and economic opportunities when they arise," he says. "The paddling, fishing, and other recreational opportunities that will come from a freer-flowing river will be a boon for paddle-sport outfitters, river guides, and many local businesses, and benefit the entire state of Maine. I can't wait to be one of the first people to paddle an unobstructed river from Old Town to the sea again." Others anticipate that river recreation will generate competitions and festivals, attracting additional tourism dollars.

A revitalized Penobscot River holds potential for the renewal of nature and community from inland streams to the Gulf of Maine. Atlantic salmon fishing, currently suspended because of perilously low numbers, may resume over time to produce millions of dollars in direct and indirect benefits. Perhaps a catch-and-release version of the tradition of gifting the president of the United States with each year's first-caught salmon will resume.

Anglers may soon fish in free-flowing waters long closed because of their proximity to the dams. Almost immediately, anglers should be able to land American shad in newly accessible upstream waters. Shad will increase as they use newly accessible spawning habitat. Penobscot alewife populations are already beginning to build. Their large numbers will eventually shield vulnerable, less abundant young salmon from predators, while providing food for myriad fish and wildlife. On the nearby Kennebec, burgeoning alewife populations already support a commercial fishery in the inland town of Benton. And rebounding bald eagle populations on the Kennebec foreshadow increases on the Penobscot.

Enduring, effective collaboration will be needed to fully realize the promise of the Penobscot Project. In fact, the project may have its most far-reaching effect if its approach to marginalizing people's differences and building solutions from common ground inspires others to overcome complex, seemingly intractable challenges in natural-resource management and beyond.

John Banks*, a member of the Penobscot Indian Nation and its natural resources director for more than 25 years, oversees river protection and sustainable resource development for the tribe.* **Laura Rose Day** *is executive director of the Penobscot River Restoration Trust, a nonprofit dam owner implementing a public-private collaboration to restore sea-run fisheries and ecological integrity on the Penobscot River. Contact her at laura@penobscotriver.org.*

Endnotes

[1] Alyssa Bothelho, "End and Rebirth on the River: Breaching of Maine Dam, Restoring Salmon's Passage Unite Many," *Boston Globe*, July 23, 2013. See also www.penobscotriver.org.

[2] National Research Council, "Atlantic Salmon in Maine" (report, Committee on Atlantic Salmon in Maine, 2004).

[3] Project partners include the Penobscot Indian Nation, the Atlantic Salmon Federation, American Rivers, the Natural Resources Council of Maine, Maine Audubon, the Nature Conservancy, Trout Unlimited, the U.S. Fish and Wildlife Service, the National Oceanic and Atmospheric Administration, the State of Maine, and organizations, citizens, and communities in and beyond the Penobscot basin.

[4] Dave Sartwell, "Historic River Reclamation Impacts All of New England," *GloucesterTimes.com*, September 20, 2011, http://www.gloucestertimes.com/sports/x7814508/Historic-River-Reclamation-impacts-all-of-New-England/print.

[5] Robin Alden, "Building a Sustainable Seafood System for Maine: Commentary," *Maine Policy Review* 20, no. 1 (2102): 93; and Heesun Wee, "Something Fishy Is Going On in the Nation's Lobster Capital," http://www.nbcnews.com/business/something-fishy-going-nations-lobster-capital-8C11040946.

[6] For more on Four Directions, see John Moore, "Four Directions Community Development Financial Institution: Native American Lending in Maine," *Communities & Banking* 20, no. 3 (summer 2009).

RESIDENT-OWNED MOBILE-HOME PARKS IN MAINE

Jane Irish
GENESIS COMMUNITY LOAN FUND

Helping owners of manufactured housing become owners of the land, too, can be challenging, and collaborations are essential.

In 2006, Maine had 552 mobile-home parks, according to the Maine Manufactured Housing Board.[1] The parks provided 19,702 sites of affordable housing but, being owned by investors, did not provide security. That's because residents in investor-owned parks are susceptible to sudden and high rent increases, failed or dangerous infrastructure, and changes of use forcing relocation or even loss of the home.

The conversion of parks to resident ownership removes such risks while providing other economic and civic benefits. Once converted to cooperative resident-owned communities (ROCs), these mobile-home parks offer affordable housing in a more stable environment. They give residents the ability to control the rent on their lot, maintain infrastructure, and prevent the sale or development of the park for other uses.

Genesis Community Loan Fund, a Maine-based community development financial institution, saw conversions as an opportunity to further its mission to develop affordable housing in underserved Maine communities.

It Takes Commitment

Genesis Fund staff began by researching successful park conversions nationwide and attending the New Hampshire Community Loan Fund's nationally recognized Meredith Institute for intensive training in park conversion and resident ownership.

The fund received a grant from the Corporation for Enterprise Development (CFED) to develop a program to provide both the financing and technical assistance needed to address mobile-park conversion in Maine. Additionally, the fund received a $50,000 grant from the Innovations in Manufactured Homes (I'm Home) initiative to help cover start-up costs.[2] A staff person was then hired for the conversion.

In 2009, Medomak Mobile Home Park in Waldoboro became Maine's first cooperatively owned park, preserving 37 occupied units of affordable housing and 11 pad sites for future expansion. Park residents were excited about ownership and the resulting peace of mind.

"Now I don't have to worry about someone coming in, buying the land, and kicking us all out. I don't have to worry about a huge rent increase or not having anyplace to go," said longtime park resident Alton "Shorty" Hayden.

Medomak Mobile Home Cooperative in Waldoboro, Maine.

photo Erin Little, Genesis Community Loan Fund

Unanticipated challenges did arise, providing learning opportunities. Maine mobile-home parks, including Medomak, tend to be smaller and have lower lot rents than their counterparts elsewhere. This generates less revenue to pay developer fees that support the conversion to ROCs. Medomak had substantial infrastructure issues and empty lots that couldn't be filled until the pad sites were upgraded. In its commitment to the program, the Genesis Fund forgave all fees and provided the newly formed cooperative 100 percent financing and ongoing technical assistance at reduced cost. That included helping park residents gain the financial acumen and leadership skills needed to run a successful cooperative.

At the end of three years, funding from the I'm Home grant ran out, but Genesis Fund staff worked to obtain other grants to help offset the costs of technical assistance, leadership training, and improving the park infrastructure.

With assistance from Genesis Fund staff, Medomak cooperative made progress toward its goals. Nevertheless, new challenges arose, creating costs that made the community more fragile.

Since conversion in 2009, four residents have left. One purchased a home, one passed away, and two moved. Before new resident/owners can move in, improvements need to be made to the vacant sites. The total cost—removing an old unit, upgrading the pad site, and doing electrical and plumbing work—is estimated to be $10,000. New units could not be moved into the park until the improvements were made. That created a cash-flow issue as the lost lot rent was necessary for the cooperative to have sufficient income to meet expenses.

Medomak Cooperative has received numerous calls of interest in lots whenever pads are ready to be occupied, and the board is confident that it can attract new residents once the work is completed. Genesis Fund provided Medomak Cooperative with a $50,000 line of credit and helped secure a $5,000 grant to cover half of the costs. Now the cooperative is undertaking the work and anticipates having 35 units in 2014, making the park more fiscally sound.

Collaborators

Despite the challenges of mobile-park conversions in Maine, the Genesis Fund has continued its efforts by working with two larger parks—Greystone, a 63-unit park in Veazie, and Country Village, a 22-unit park in Saco, which has the potential to expand to 104 units.

A bank partner was brought into the Greystone financing package when that park became resident owned in 2010. The new cooperative could not support the developer's fees, and they, too, were forgiven. The cooperative was able, however, to handle the technical-assistance fees required for training the residents in running a cooperative.

But the course of park conversions does not always run smooth. With the collapse of the housing market, Country Village in Southern Maine ran up against local foreclosed properties that were selling for less than a park unit. Even though a $500,000 Community Development Block Grant and a $400,000 Affordable Housing Program grant had been awarded, the conversion and expansion of Country Village had to be abandoned. Faced with a $125,000 loss and significant staff expense, the Genesis Fund closed the program, laying off the staff person assigned to it.

Even without the acquisition of any new cooperatives, the two existing mobile-home cooperatives required ongoing technical assistance of approximately 42 hours a month. The combination of financial loss and the burden on staff continued to create stress. Although the decision to curtail the cooperative program was difficult, the Genesis Fund recognized it was necessary. As board member William Shanahan explains, "This was a critical move for the organization because it allowed the Genesis Fund to focus on our core lending—supported housing, affordable housing for year-round island communities, preservation, and our work with Habitat for Humanity."

While continuing to provide financing to the existing cooperatives, the Genesis Fund explored collaborative efforts that would enable additional parks in Maine to become resident owned. A partnership with the Housing Foundation to provide property management and technical assistance to Greystone Mobile Home Cooperative gave Genesis Fund staff more time to concentrate on lending activities.[3] When in the spring of 2013, the Housing Foundation resigned, Genesis Fund staff stepped in to fill the gap. By July 2013, the Genesis Fund's loan portfolio had grown enough to support hiring a part-time program person to provide technical assistance to the resident owners of Greystone Mobile Home Cooperative.

The Genesis Fund also formed a relationship with the Cooperative Development Institute (CDI) to expand mobile-park conversions in Maine.[4] In spring 2013, it refinanced Medomak Mobile Home Cooperative, generating the cash flow needed to contract with the CDI to provide technical assistance to the residents.

Continuing the partnership with the CDI, the Genesis Fund was able to begin financing mobile-park cooperatives again. With the CDI organizing park residents and forming the resident-owned cooperatives, Genesis Fund took the financing lead. Because community banks would only finance 50 percent loan to value, the Genesis Fund crafted a financing package that included another Maine community development financial institution (CDFI), Community Concepts Finance Corporation, and Bangor Savings Bank. Although the financing was complex, it was key to the creation of resident-owned cooperatives. This strategic move resulted in Brunswick Bay Mobile Home Cooperative being able to preserve 44 units of affordable housing in January 2013.

§

Certain challenges facing the conversion of mobile-home parks to ROCs are unique to Maine and demand creative solutions. The state is largely rural, and its aging mobile parks are small and lacking adequate infrastructure. Small CDFIs like the Genesis Fund struggle to maintain sufficient funding and staff for the technical assistance that newly formed cooperatives need to become successful. Complex collaborative efforts may be the solution for successful resident-owned cooperatives in Maine. Additional capacity in the form of government grants, foundation support, and private donations to CDFIs and nonprofit organizations like the CDI are needed to cover the crucial soft costs. Collaborations among CDFIs and the nonprofit entities that provide ongoing organizational support to resident owners are key to successful conversions. Additional collaboration with community banks on the financing side is also necessary and can preserve this valuable affordable housing stock well into the future.

Jane Irish *is the director of development at the Genesis Community Loan Fund in Damariscotta, Maine. Contact her at jane@genesisfund.org.*

Endnotes

1 The Maine Manufactured Housing Board is a state board established to ensure that manufactured housing meets state performance standards and is installed in a safe and sanitary environment.

2 The Innovations in Manufactured Homes (I'm Home) initiative works to recognize manufactured housing as a key source of affordable and appreciating housing and to help individuals and families build wealth through homeownership.

3 The nonprofit Housing Foundation, based in Bangor, Maine, is dedicated to low- and moderate-income housing management.

4 The Cooperative Development Institute is committed to helping owners of manufactured homes in New England preserve and protect their homes by creating resident-owned cooperatives.

FEDERAL RESERVE BANK OF BOSTON™

Communities & Banking

Regional & Community Outreach
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210

Change Service Requested

Reinventing Older Communities

Bridging GROWTH & OPPORTUNITY

MAY 12–14, 2014

Loews Philadelphia Hotel

Join us in Philadelphia this May for the sixth biennial **Reinventing Older Communities** conference, Bridging Growth & Opportunity. Highlighting the latest research on and promising approaches to challenges facing older communities, the conference explores ways to ensure that economic growth can take root in and expand across neighborhoods and communities.

For more information and to register, visit www.philadelphiafed.org/ROC2014

FEDERAL RESERVE BANK OF PHILADELPHIA