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Historic TAX Credits to the Rescue

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TAX CREDITS for Historic Rehabilitation

by John Leith-Tetrault and Kennedy Smith

Historic buildings shape New England's character and reflect communities' industrial, civic, ethnic, religious, and cultural heritage. Iconic buildings like Barre's union hall in Vermont, Boston's Old North Church, and Newport's waterfront mansions are integral to American history, along with thousands of New England's houses, barns, city halls, courthouses, storefronts, mills, churches, customs buildings, and theaters.

Historic buildings also provide opportunities to create high-quality affordable housing. But in spite of a shortage of affordable housing, the nation demolishes an average of almost 600 old and historic buildings every day, buildings that could continue to enrich our towns and cities for generations to come.[1]

The Economy and the Community

Rehabilitating historic buildings can be challenging and expensive, and sometimes communities with other priorities balk. Fortunately, there is help for meeting many goals simultaneously.

The federal government offers income tax credits equal to a percentage of eligible rehabilitation costs, reducing tax liability by one dollar for every dollar of tax credit earned.[2] From their 1976 launch through 2006, historic rehabilitation tax credits helped finance more than 31,000 rehabilitations, including hundreds of thousands of housing units. Additionally, almost 30 states have state programs that roughly parallel the federal program. (See "Preservation Tax Credit Programs in New England.")

Because the Tax Reform Act of 1986 placed restrictions on individuals, credits are often more valuable for corporations, and tax credit syndication is common. The market is well established, with tax credit pricing influenced by a project's size, perceived risk, competition for tax credits, project timing, and so on. Investors typically pay 95 to 99 cents per dollar of federal historic rehabilitation tax credit and 65 to 85 cents per dollar of state credit.[3]

Tax Credit Basics

Options at the federal level are a 20 percent income tax credit for historic buildings and a 10 percent credit for buildings built before 1936 but not historic.[4]

Claiming 10 percent is relatively straightforward: property owners determine that a building is not historic, then claim the credit on their federal income tax return. There are no rehabilitation standards or reviews. Claiming the 20 percent credit is somewhat more complicated.

To be eligible for the 20 percent federal historic rehabilitation tax credit, these criteria must be met:

- The building must be listed in the National Register of Historic Places, be a "contributing" building in a National Register-listed historic district, or be eligible for the listing.
- The project must be depreciable and income producing.
- Qualified rehabilitation expenses must equal or exceed the building's basis (original cost adjusted for factors such as depreciation) or $5,000, whichever is greater (in other words, a "substantial rehabilitation"). Qualified expenses include costs such as construction, architectural and engineering fees, construction-period interest, and developer fees. They do not include acquisition, landscaping, new construction, furnishings, and the like.
- Rehabilitation must meet the Secretary of the Interior's Standards for Rehabilitation.[5]
- Substantial rehabilitation must take place within a defined two-year period (five years under certain conditions).

To claim the credit, property owners must obtain plan approval from the state historic preservation office and National Park Service, plus final approval saying rehabilitation was done correctly.[6] The credit can be carried back one year or carried forward up to 20 years. It can be combined with other tax credits (low-income-housing, state historic, and New Markets).[7]

The program has some limitations:

- The building's depreciable basis must be reduced by the value of the tax credit.
- When coupled with low-income-housing tax credits, the reduced basis is used to calculate the housing credit.
- Historic rehabilitation tax credits cannot be transferred.
- A change of ownership within five years triggers credit recapture.
- There are some "disqualified lease" restrictions on the use of rehabilitated property by tax-exempt entities.

The National Trust for Historic Preservation, the National Conference of State Historic Preservation Officers, Preservation Action, and others are supporting legislation to correct those limitations.[8]

A New England Success

One example of the benefits of preservation tax credits is Providence's Dreyfus Hotel.

Built in 1890, the four-story building was a downtown landmark for years, with a bar and dining room considered among the city's finest intact commercial interiors. Johnson & Wales College purchased it in the 1970s and used it as a dormitory into

Tax Credit Programs in New England

Connecticut offers one tax credit program for historic homes and one for commercial and industrial buildings rehabilitated for residential and mixed-use activities.

The Historic Homes Rehabilitation Tax Credit program provides a credit of 30 percent of qualified rehabilitation expenses, up to $30,000 per unit, for up to four units. One of the units must be occupied by the property owner for a minimum of five years. Qualified rehabilitation expenses must total at least $25,000. Buildings must be listed in the National or State Register of Historic Places and must be located in a targeted area (generally one with family income levels below the state median). The program is capped at $3 million annually.

The program provides a 25 percent credit for rehabilitating historic commercial and industrial buildings for residential use (partial credits are available for mixed-use projects). As of January 1, 2008, the state offers an add-on credit of 5 percent for projects that include affordable housing. The cap is $15 million annually, with a per-project cap of $2.7 million. Credits may be used only by C corporations and can be transferred to other entities. Contact the Connecticut Historical Commission: (860) 566-3005, www.chc.state.ct.us.

Maine offers a 20 percent credit for income-producing properties that qualify for federal credits. Credits are capped at $100,000 annually per taxpayer. There is no statewide cap. The credit can be used by the building owner or lessee. As with the federal credits, qualified rehabilitation expenses must total the greater of $5,000 or the building's adjusted basis. Projects must comply with Department of Interior standards for rehabilitation. Contact the Maine Historic Preservation Commission: (207) 287-2132, www.maine.gov/mhpc.

Massachusetts offers a 20 percent historic rehabilitation tax credit. A building needs to be older than 50 years; it does not need to be listed in the National Register or contribute to a National Register-listed historic district. There is no minimum investment required and no per-project cap. The state program is capped at $50 million and is authorized through 2010. Projects must comply with Department of Interior standards. Contact the Massachusetts Historical Commission: (617) 727-8470, www.sec.state.ma.us/mhc/mhctax/taxidx.htm.

New Hampshire offers tax incentives for preserving historic agricultural buildings. Contact the New Hampshire Division of Historical Resources: (603) 271-6435, www.nh.gov/nhdhr/barntaxincentives.html.

Rhode Island's program was until spring 2008 one of the nation's most generous, with a tax credit equal to 30 percent of qualified rehabilitation expenses for income-producing historic properties. Unfortunately, budget issues forced the state to withdraw the offer for future projects. Projects already accepted will be completed.[10] Contact the Rhode Island Historical Preservation and Heritage Commission: (401) 222-2678, www.preservation.ri.gov/credits.

Vermont provides a 10 percent add-on credit for projects located in designated downtowns and qualifying for the federal 20 percent tax credit. There is a cap of $50,000 per project and a statewide cap of $1.5 million. Vermont also offers credits for specific improvements. These include a 50 percent credit for improvements that help historic buildings comply with building codes; a 25 percent credit for façade improvements for pre-1983 commercial buildings ineligible for federal historic rehabilitation tax credits; and reallocation of state retail sales taxes paid for construction materials purchased for improvement projects in designated districts. Each credit has a per-project cap ($50,000 for elevators, $12,000 for lifts, $50,000 for sprinklers, $25,000 for other code compliance work, $25,000 for façade improvements). For sales tax reallocation, caps are based on population size. Contact the Vermont Division for Historic Preservation: (802) 828-3211, www.historicvermont.org/financial/credits.html.

the 1990s. It was vacant until 2005, when a Providence-based nonprofit arts organization, AS200, purchased it.[9] AS200 plans a redevelopment that will include 14 housing units. Eleven will be restricted to artists earning less than $25,000 annually; three will be market rate. There also will be 10 artist studios, a restaurant, and a small ground-floor retail space.

Although AS200 has had little experience in real estate development, the project has financial support from the City of Providence, the State of Rhode Island, the Federal Home Loan Bank of Boston (FHLB Boston), and the Providence Preservation Society Revolving Fund, among others, making the $7.4 million project attractive to tax credit investors. The National Trust Community Investment Corporation helped obtain a $3.4 million tax credit equity investment, combining the 20 percent federal historic rehabilitation tax credit—and the 30 percent state historic rehabilitation tax credit that Rhode Island had at the time—with federal New Markets tax credits. HUD's HOME Investment Partnerships Program, Rhode Island Housing, and Rhode Island Lead Abatement funds are helping with financing; equity comes from the restaurant owner; the Providence Economic Development Corporation is making an acquisition loan; and FHLB Boston's Affordable Housing Program is providing a first mortgage.

The Dreyfus Hotel is just one of a growing number of projects in New England and throughout the country in which historic rehabilitation tax credits have been pivotal in reusing historic buildings for affordable housing and community facilities-and connecting past and future.

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Endnotes

[1] Donovan Rypkema, "Economics, Sustainability, and Historic Preservation," speech for the National Trust for Historic Preservation, 2005, http://www.preservationnation.org/issues/transportation/additional-resources/rypkema-speech-sustainability-portland-10012005.pdf.

[2] The program is administered jointly by the National Park Service and the Internal Revenue Service. See *Tax Aspects of Historic Preservation*, www.nps.gov/history/hps/tps/tax/IRSQ_A.htm. The National Trust Community Investment Corporation offers an interactive online questionnaire that helps determine if a project is eligible for historic rehabilitation tax credits: www.ntcicfunds.com.

[3] Because state income taxes are a deduction from federal taxable income, state tax credits are priced lower to offset the lost federal deduction.

[4] "Historic" may imply not just historic significance, but also architectural or cultural.

[5] See http://www.nps.gov/history/hps/tps/tax/rehabstandards.htm.

[6] The building's owner or developer must file a form with the National Park Service. Part I certifies that the building is historic; Part II outlines rehabilitation plans; Part III certifies that the rehabilitation was completed correctly. See www.nps.gov/history/hps/tps/tax/hpcappl.htm.

[7] The New Markets Tax Credit Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated community development entities. See http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5.

[8] See http://www.preservationnation.org/issues/rehabilitation-tax-credits/community-restoration-and.html.

[9] AS200 stands for Artists Space at 200 Weybosset Street, where the organization was launched in 1985.

[10] See http://www.preservation.ri.gov/pdfs_zips_downloads/news_pdfs/08-04-07hpitc.pdf.

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The College as Community-Based Organization

by Todd Andrews
Goodwin College

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Colleges and universities are increasingly recognizing their role in building healthy environments through relationships with the communities that surround them. The University of Vermont in Burlington, Trinity College in Hartford, and Clark University in Worcester, Massachusetts, are well-known New England examples. East Hartford's Goodwin College, which engages in comprehensive revitalization work, actually sees itself as essentially a community-based organization.

A Partner for East Hartford

In the 1950s, Pratt & Whitney Aircraft established its headquarters in what had once been a rural farm community, and East Hartford flourished. But over the past two decades, the nature of job opportunities changed, and the city encountered challenges in maintaining a robust economy for residents.

Today Goodwin College is helping East Hartford reinvent itself. Although Goodwin became a college only in 1999, its existence as a community-based organization dates back to its 1962 founding as a private career

school known as The Data Institute Business School. Originally, it helped students with disabilities to prepare for employment. As it grew, it expanded its offerings to meet other demands of the marketplace, partnering with workforce boards and other community-based not-for-profits focused on workforce development and training.

Then in 1999, Data Institute became Goodwin College, with the goal of enabling students to advance in the workplace with a degree or certificate from an accredited institution of higher education. The college became a nonprofit 501(c)(3) institution in July 2004, receiving accreditation by the New England Association of Schools and Colleges through the Commission on Institutions of Higher Education.[1]

Part of the reason the college considers itself a community-based organization relates to the people it has served. They are a diverse group of students from more than 100 towns in Connecticut, students who face many barriers to accessing higher education and succeeding. For example, 58 percent of new students enrolling at Goodwin College in fall 2007 were first-generation college students. And 75 percent of that group were simultaneously holding jobs. Moreover, with a median age of 30, many are parents with family responsibilities that compete with academic labors. As many as 87 percent receive financial aid, and 58 percent are earning less than $25,000.

Workforce Development

Throughout the transition into an accredited college, Goodwin has retained its community focus. After assessing the needs of area employers and determining the skill sets that workers required, the college developed new programs in high-demand fields such as computer technology and business studies. Working closely with the community's businesses kept the school on top of the rapid changes in companies' needs and led to the creation of programs in early childhood education, nursing, and other in-demand health-care fields.

The focus on community and employer needs has entailed ongoing partnerships with regional industries to develop academic programs that stimulate students' intellectual curiosity while also arming them with skills for available jobs. For instance, the opening of the Connecticut Convention Center in Hartford and related operations resulted in increased demand for trained hospitality workers. Working with Capital Workforce Partners, the college developed a hospitality and customer-service training program to help meet that demand.[2] Upon program completion, students receive professional certification from the American Hotel and Lodging Association.

The River and the Brownfields

When rapid growth necessitated building a new campus, Goodwin's connection to the existing community convinced it to remain in East Hartford. Reclaiming an invaluable resource along the Connecticut River that had been lost to the community, the college purchased 30 acres of brownfields. These were parcels formerly used as transfer and storage terminals (large above-ground tanks) for petroleum products. For 60 years, the facilities had been expanded and modified to fit the specific needs of various corporate owners. When the industrial uses ceased, a blighted, contaminated property was left behind. The aesthetic impact on a community that was already challenged by high poverty rates was devastating.

By June 2007, Goodwin College was able to break ground on an ambitious expansion project along the Connecticut River intended to benefit all the communities served by the college. A 2005 economic impact study conducted by consultant Donald Klepper-Smith, chief economist and director of research for DataCore Partners Inc., predicts that the expansion will result in $79.5 million in total direct and indirect economic benefits for the State of Connecticut and will spur the creation of 1,516 new direct and indirect full-time-equivalent jobs. With larger facilities to accommodate a growing student population, the school anticipates graduating 1,240 students annually by 2010—approximately four times the current number. Moreover, it expects that graduates will earn an average annual salary of $45,890, totaling $56.9 million in wages and generating approximately $2.3 million annually in additional income tax revenue for the state.

The first building for the expansion is being constructed on one of the former brownfields. The 109,000-square-foot building is scheduled for completion in late 2008, with students beginning classes in January 2009. Importantly, the new building will allow the college to engage the community in a variety of activities. Its new 700-seat auditorium, library, and community rooms will provide inviting spaces for students and local residents interested in roundtable discussions and lecture series. The college is currently developing a plan for public use of the facilities.

Goodwin College has already begun engaging the community through its new campus—for example, by leading nature walks through floodplains it owns south of the new construction. As the college continues its expansion and clean-up, the community will be able to enjoy direct access to the river through deep-water docks. And plans are afoot to run environmental studies from a college research vessel on-site. Goodwin also is working with the Connecticut Science Center to develop river-ecology educational programs for secondary school children. And it is collaborating with Riverfront Recapture, a private nonprofit committed to reconnecting metropolitan Hartford with the Connecticut River and providing community access to the waterfront. Together they hope to extend an existing trail network another two-and-a-half miles along the river through the college's property. Projected plans for the remaining land include construction of residence halls, an early childhood learning center, a dining venue for students, and an environmental studies lab.

Community Housing and Education

The college also is enhancing the surrounding neighborhoods, which have a mix of commercial, industrial, and residential housing, including a public housing complex. A partnership with the East Hartford Housing Authority will redevelop the 80-unit King Court Housing complex to serve both Housing Authority tenants and students. Tenants will be able to attend Goodwin College tuition-free, enabling them to increase their earning potential and ultimately transition to market-based housing.

Goodwin College also has acquired properties in the residential and commercial neighborhoods surrounding the new campus, hoping to revitalize the commercial district along Main Street. The commercial district will benefit from the neighboring Rentschler Field project—a development project that includes a University of Con-

necticut athletic stadium and an outdoor-gear retailer. Through hearing processes, East Hartford has been able to weigh in on the efforts. As Jeanne Webb, East Hartford's director of development, says, "The town has ... worked closely with the college as it developed its plans for expansion. The college's plan for expansion has been in line with the town's objectives for economic and workforce development. The project complements our goals in every way."

In 2007, to further open educational opportunities to learners in Greater Hartford, the college utilized a grant from the Connecticut State Department of Education for an initiative called the ConnCAP (**Conn**ecticut **C**ollegiate **A**wareness and **P**reparation) Program. The program gives area high school students who are first-generation, at-risk, or limited in financial resources critical tools to help them prepare for and succeed in higher education. The program is one of eight in Connecticut.

Recognizing that skill-building opportunities at a noncollegiate level are still needed, Goodwin College also incorporated two existing programs into its new college structure, English as a Second Language (ESL) and One-2-One Components Training.[3] One-2-One Components Training provides private instruction and focuses specifically on work-related skills that a particular student needs to further develop and to obtain employment. Additionally, there are collaborations with community organizations such as Catholic Charities and the Brazilian Cultural Center to deliver ESL instruction to the area's large immigrant population at little or no cost. Some of the ESL students have already moved into college-level programs at Goodwin and other local institutions.

Goodwin believes that colleges have a social responsibility to care for the communities in which they reside. Even the smallest colleges can have a big impact when they use their resources to help meet a community's needs.

Todd Andrews *is the director of the Office of Institutional Advancement at Goodwin College in East Hartford.*

Endnotes

[1] Financing for the first phase of the Goodwin College expansion consisted of a $24,000,000 loan from NewAlliance Bank, a $2,250,000 grant from the State of Connecticut Department of Economic and Community Development, a $3,000,000 grant from the Connecticut Brownfields Redevelopment Authority, with the balance of funding being invested directly by the college.

[2] The goal of Capital Workforce Partners is "to leverage public and private resources to produce skilled workers for a competitive regional economy." See http://www.capitalworkforce.org.

[3] See http://www.goodwincollege.org/one2one/index.html.

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Age-Restricted Housing in New England

by Peter Francese
New England
Economic Partnership

Getty Images

Forty years ago President Johnson signed the Fair Housing Act prohibiting discrimination in housing based on a person's race, color, national origin, religion, sex, disability, or familial status (families with children). Although other federal laws prohibit age discrimination in employment, age discrimination was not addressed in the Fair Housing Act.

Using age-restricted housing to reduce the number of school children cannot succeed. The total cost of running a school district is not materially affected by year-to-year fluctuations in the number of students.

In fact, subsequent amendments enacted in 1988 and 1995 codified that any housing specifically restricted to "older persons" (defined as anyone 55 or older or, in some cases, 62 or older) would be exempt from the provision that protected families with children from discrimination.

Age-Restricted Communities Increase

Age-restricted communities designed specifically for retirees have been part of the housing landscape in Florida, Arizona, and other snowbird states for decades. Those communities were designed for people who wanted certain recreational and therapeutic amenities in their retirement years and did not want to live near the noise and traffic they associated with children.

Those sunbelt states where age-restricted developments have been popular recognized long ago that they would also have to permit the construction of a great many units of unrestricted and affordable workforce housing, if only to house the workers who would care for their fast-growing elderly population. The states also saw the widespread availability of affordable housing for all ages as the key element to ensure future job growth and economic development not related to health care.

By contrast, age-restricted housing in New England has become one of the legal tools (along with large-lot zoning) that can be employed to limit, or exclude altogether, the number of affordable units attractive to young families with children. The main reason why age-restricted housing has become so widespread in this region is that it is perceived by municipalities as a way to control the rising cost of public education.

The idea put forth has been that by reducing the percentage of housing units with children a town can lower the number of children in public schools and therefore lower school-related property taxes. Part of the argument is also that the occupants of age-restricted housing will pay their property taxes but make few if any demands on the town. Both of those widely held beliefs are based on fallacies.

Little if any consideration is given to the need for workers or job growth by largely residential New England towns. This is because it is widely perceived that most of the benefits of economic development accrue to the state or a region while most of the costs of public education and other municipal services are borne by people paying property taxes in each relatively small town.

There is a fundamental difference between sunbelt states and New England in the structure of government. Florida, for example, has about 18.5 million year-round residents living in 67 counties. Compare that number with New England's 14.3 million year-round residents, who coincidentally also live in 67 counties. The key difference is that, according to the 2007 Census of Governments, Florida has 95 school districts, between one and two per county. In contrast, New England has 700 to 1,300 school districts, depending on how they are counted—10 to 20 per county.

Considering how common it is that a small New England town with fewer than 10,000 residents supports an entire pre-K through 12th-grade school system (plus a highway, fire, and police department), it should not be a surprise that so many are searching for any way to get control of their extraordinarily high and rising property taxes.

Fallacies about Municipal Savings

The truth is that using age-restricted housing as a means to reduce the number of children and thus lower local property taxes cannot succeed. The total cost of running a school district or a municipality is not materially affected by year-to-year fluctuations in the number of students or citizens.

Cape Cod's Barnstable County, Massachusetts, for example, has 15 school districts, which served about 26,800 students in the 2006-2007 school year, 13 percent fewer than in the 2000-2001 school year. Despite the drop of more than 4,000 students in that period, spending for public education in those districts increased 26 percent from 2000 to 2006. Although Barnstable County may be an extreme example, a similar story of declining enrollments combined with rising spending can be found across New England.

The point is that trying to bring down school spending by reducing the number of school-age children simply does not work. Factors such as state and federal mandates, the rising cost of employee pay and benefits (including health insurance), and the rising cost of fuel are far more important than the number of students in determining the expense of operating a school district.

Mandates, the rising cost of employee pay, and the like are more important than the number of students in determining the expense of operating school districts.

The second fallacy regarding age-restricted housing holds that the older occupants, many of whom are senior citizens, will pay full property taxes but not make any demands on the municipality. In fact, two types of cost shifting are occurring, both of which reallocate costs away from the elderly to younger taxpayers.

The first type of cost shifting occurs when legislation is passed to relieve senior

citizens of the burden of paying some or all of their property taxes. Over 100 towns in New Hampshire, for example, now provide property tax abatements to home owners 65 or older on the basis of their income and assets. Those tax abatements collectively shifted more than $20 million in property taxes to younger New Hampshire home owners in 2007, up from under $12 million in the 2000 fiscal year. Since 2000, the amount of those abatements has been increasing 10 percent per year compounded annually. Meanwhile, approximately 3,500 units of age-restricted housing have been built in the state since 2000, according to a late 2006 survey by the New Hampshire Housing Finance Authority.[1]

The second type of cost shifting occurs in the price of health insurance. Any corporate, not-for-profit, or municipal employer in New England can testify to the fast-rising cost of health insurance. One of the reasons given is that hospitals and other health-care providers are paid at below their costs by patients covered by Medicare or Medicaid. As the numbers of such patients rise, health-care providers shift more of the cost of medical services to patients covered by private insurance, who tend to be nonelderly.

Social Costs

The social costs of permitting age-restricted housing rather than workforce housing are less quantifiable but no less real. Since most age-restricted housing in New England is permitted at higher densities than workforce housing, it is often less expensive than other housing. But when young adults go looking for a place to live, they are prohibited from buying or renting affordable age-restricted homes.

My opinion, formed after interviews with scores of young adults, is that many are leaving the region because other states offer a warmer welcome for them and their children. For whatever reason, there is a growing imbalance in age distribution. According to Census Bureau estimates, the number of New England residents ages 30 to 39 declined by 13.7 percent to 1.9 million between 2000 and 2006. If it had declined at the same rate as for 30-to-39-year-olds nationwide (5.4 percent, a rate associated with fewer births after the postwar baby boom), New England would by mid-2006 have had approximately 2.1 million residents of 30 to 39 years old, or nearly 200,000 more.

Another way to measure the unusually rapid aging of the region is to look at the change in median age. From 1990 to 2006 New England's median age went up 5.3 years from 33.6 to 38.9 years old, compared with a 3.6-year increase for the nation. The Census Bureau reports that in 2007, Maine (median age 41.6) and Vermont (40.8) were the nation's two oldest states. Also by that measure, all six of the New England states are now among the nation's 10 oldest states. The change in age distribution leads to the question, How much is related to age-restricted housing, an influx of retirees seeking such housing, and an outflow of young families unable to find someplace affordable among freed-up properties of local retirees?

Time to Change Direction

Communities that exclude affordable workforce housing but welcome age-restricted housing may want to reconsider, given the impact on the region's ability to retain young workers. States in other regions seem to understand better the importance of having enough young workers to sustain economic growth. They attract our young adults by having a sufficient supply of housing for them.

Fifty years ago it was legal and even acceptable to exclude people from purchasing a home on the basis of their skin color or their religion. We as a society have come to believe that such discrimination is not only morally wrong but bad economic policy. Perhaps 50 years from today we will look back on the widespread age discrimination we practice in housing in New England and wonder why it took so long to recognize the damage it was doing to our economy and our sense of justice.

Peter Francese *is the director of demographic forecasts for the New England Economic Partnership. He can be reached at peter@francese.com.*

Endnote

[1] See http://www.nhhfa.org/rl_age.cfm for data. A report is forthcoming.

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Mapping New England

Age-Restricted Housing in New Hampshire

Age-restricted housing exists when a local government creates a policy allowing residential units to be restricted to occupancy by stated age groups—adults 55 and older or seniors 65 and older. The reasons for allowing age-restricted housing developments vary from state to state, but some New England states have instituted them in the belief they will reduce the financial and capacity burden on their public school systems. In practice, say opponents, they don't. (See the article "Age-Restricted Housing in New England.")

The map highlights where the concentration of both existing age-restricted units (municipal-level data) and building permits (county-level data) for the construction of new age-restricted units are within New Hampshire. A greater concentration appears in the southeastern portions of the state, which are the most urban and densely populated counties and where age-restricted housing might be seen as a way to reduce the school systems' costs and capacities.

Map: Dickson Power, Federal Reserve Bank of Boston

Cities' Existing AR Housing

Chart size reflects total units (1,000)

55+ AR Housing Units

65+ AR Housing Units

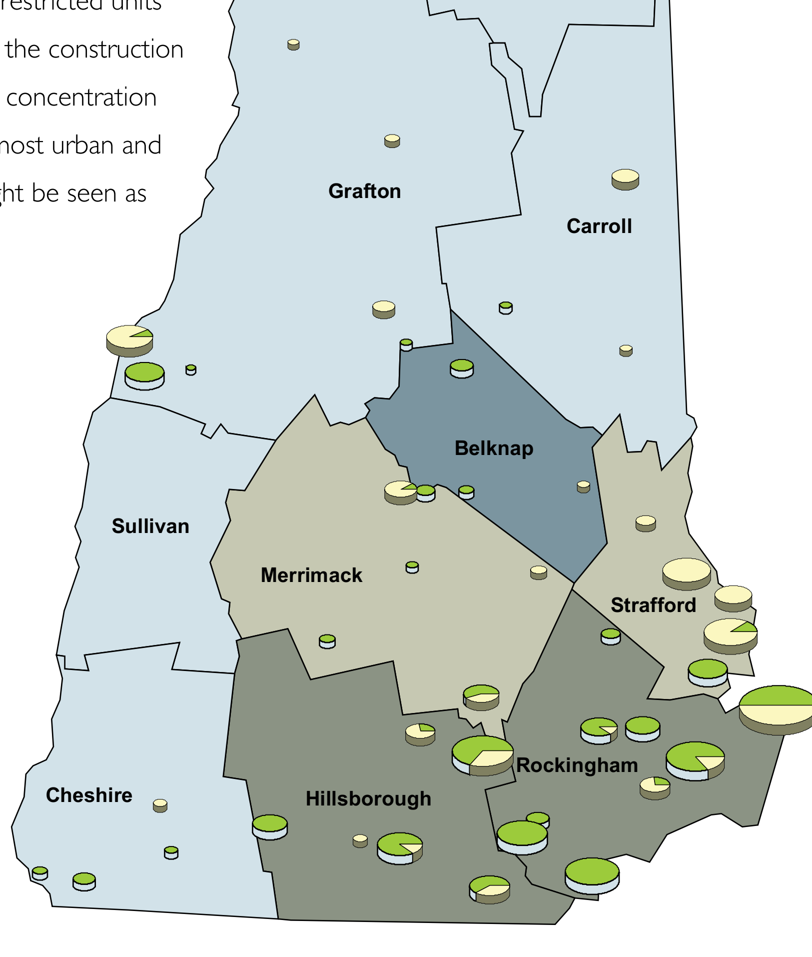
Percent of Permits Designated for AR Housing

0%-3%

4%-5%

6%-10%

11%-20%



New Hampshire Age-Restricted (AR) Housing Existing Inventory (2006)

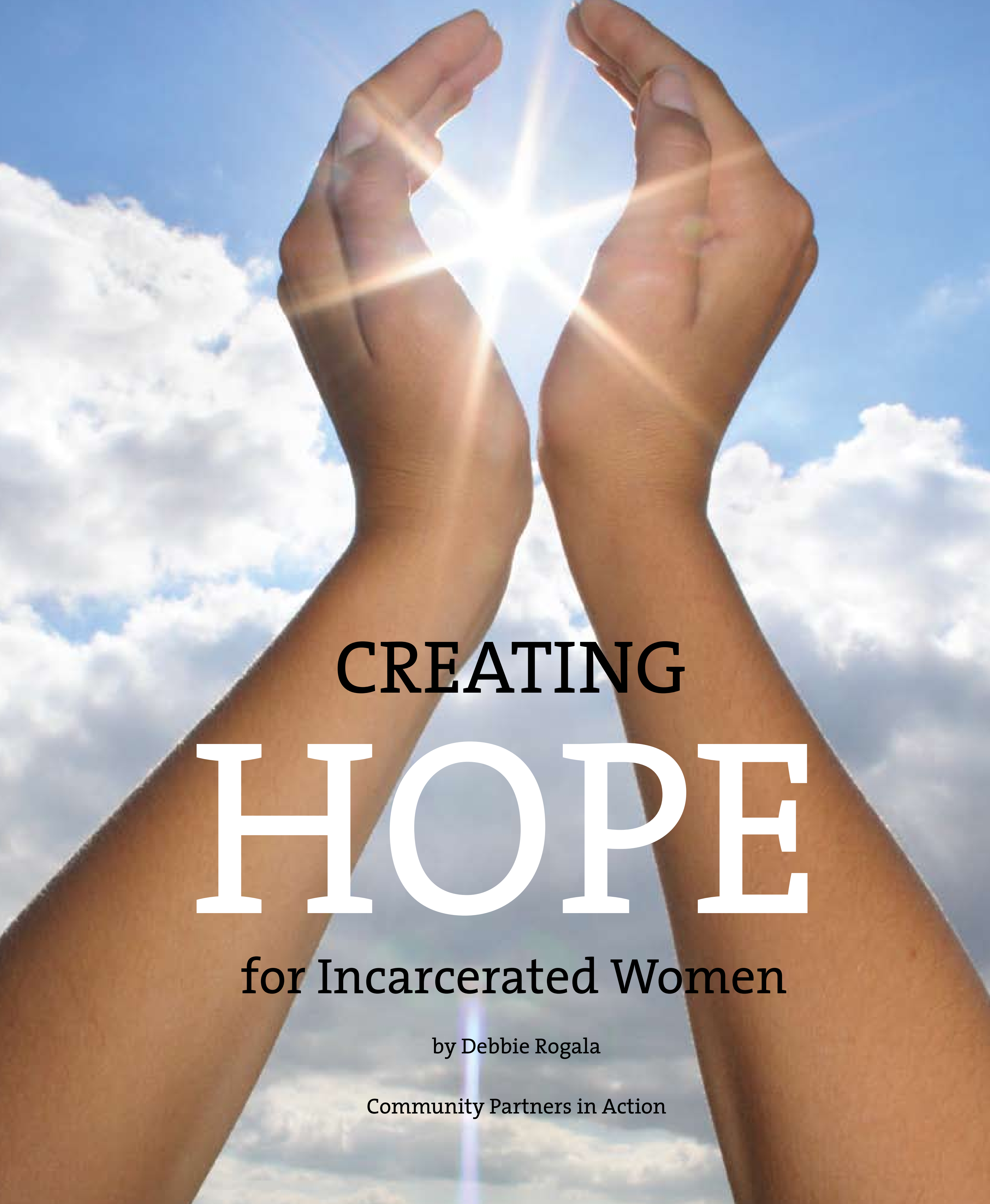
New Construction Permits (2000-2006 Totals)

* Data from New Hampshire Housing Finance Authority's 2006 Age Restricted Housing Survey. http://www.nhhfa.org/rl_age.cfm

CREATING HOPE for Incarcerated Women

by Debbie Rogala

Community Partners in Action



iStockphoto

Connecticut is grappling with a challenging issue: how to help ex-offenders turn their lives in a new direction and improve their communities.

Imagine you are a female who is serving a 12-month sentence for larceny to support your habit. You have an extensive history of incarceration, substance abuse, and mental health issues. Tomorrow you are being discharged.

You are awakened at 3 a.m. so that the prison can officially process your paperwork. At approximately 5 a.m., you are searched, shackled, and placed on a bus that will transport you to the community. You arrive about 6 a.m. You are unshackled and set free, wearing hospital scrubs and holding a clear plastic bag. The bag holds your belongings, including a Bible, certificates from programs you completed while in prison, a few hygiene products, two farewell gifts from cellmates, and an 8 x 11 piece of paper with your photo in color. The paper, your only form of identification, indicates that you were an inmate of the Department of Correction and verifies your date of release. You do not have a penny to your name. Each time you have been released prior to today, you have gone to an abusive boyfriend's place but have not stayed long. You have burned your bridges with family because of your substance abuse. It's cold and you have nowhere to go.

That, unfortunately, is the grim reality for many women returning to their communities after serving time. It only perpetuates behavior that society would like to change.

Recidivism

The Connecticut Department of Correction lists 19,438 individuals as incarcerated, 1,294 of them female. Connecticut shells out $86.08 a day for each one—$31,423 per year.

Approximately 96 percent of those individuals will return to their communities upon release. Each year, about 240 women return to the Hartford region alone. Unless action is taken to guide former inmates through the first weeks and months of reintegration, many will return to crime. Perhaps crime is the only way a particular ex-offender knows to survive. Perhaps she just doesn't understand how to manage life in the community. The majority will be behind bars in six months.[1]

A key component to reducing recidivism is providing ex-offenders with access to supportive transitional services such as housing, food, employment, and clothing. The support benefits the community, too, by helping to prevent further crime and getting individuals sufficiently rehabilitated to return to families—often young children who need them.

Although female offenders represent only 7 percent of inmates, helping them can have a powerful influence on society. Consider that in Connecticut, the female offender profile is a woman between 25 and 29, the single head of a household, with two dependent children. She is frequently a substance abuser, an abuse victim, poorly educated, with an unstable employment record and multiple health problems. The effects of getting her stabilized ripple outward.

A Better Way

Fortunately for Connecticut, a few programs that ease the ex-offender's return to the community exist. One is Hartford-based Community Partners in Action. Community Partners in Action is the current name for a nonprofit agency founded in 1875 that works with offenders and their communities and emphasizes both personal accountability and dignity.

Clients learn of the program from other prisoners or from officials while incarcerated. Then a pre-release counselor at the institution refers an inmate considered eligible. Among other requirements, the inmate must have at least four to six months remaining on the sentence, be involved in education, work, support groups and the like while incarcerated, demonstrate commitment to changing, agree voluntarily to participate, and help set concrete goals. These are among the keys to success. (See "Keys to Success.")

The re-entry process begins while the woman is still incarcerated, and it continues in the community. On the most critical day,

Keys to Success

Besides individual attitudes, keys to success include pre- and post-release services, continuity of services, a focus on the ex-offender's strengths, ongoing encouragement, and provision of basic needs (housing, clothing, access to employment services, and medical treatment). Building community networks is important, too, and a successful program will act as a bridge connecting inmates to community-based agencies that can help secure appropriate housing, treatment, employment, education, food, clothing, and other life necessities. Community Partners in Action identifies a specific contact person at each provider, and CPA staff meet with the contacts weekly. They also maintain regular contact with probation and parole officers.

Assisting 130 female ex-offenders per year, CPA starts services prior to release and continues them formally for six months to a year afterward. It is not unusual for clients to informally keep in touch with the staff for several years.

Case workers have to be well qualified. They are hired with a four- or two-year degree, usually in social services or criminal justice, and at least a year's prior experience providing case management services to the criminal justice population. They need to have crisis management skills and knowledge of community providers as well.

Also important to success is teamwork. Although CPA employees work individually with clients, the whole staff meets regularly to review each program participant's progress or lack of progress. Each staff member is familiar with each client's situation and may assist with services.

Finally, because the targeted population is high-risk inmates with multiple issues—a history of incarceration or homelessness, substance abuse, lack of life skills or education, unstable employment records, lack of housing upon release—a weekly support group is very helpful.

Journey to Freedom

In 1996, Miranda Greystone (not her real name) met her Community Partners in Action case worker for the first time. She was serving a sentence for assault at Niantic Correctional Institution, now known as York Correctional Institution. Miranda had applied to be part of the resettlement program. At the time, she was still an immature young woman and was filled with guilt, shame, and anger. One of her toughest challenges was learning to forgive herself for her past behavior and move on. Her transition to today's mature, taxpaying, constructive member of society did not come without struggle.

With help from CPA, Miranda learned to handle her anger about discrimination and adversity in a positive way. She was able to maintain her sobriety, keep an apartment, and hold a job. She began to openly discuss her fears and dreams, and to share her experiences with young people at numerous speaking engagements.

Perhaps most impressive, she completed an associate's degree at Hartford's Capital Community College and a bachelor's at a Seven Sisters college, then entered a master's program in social work. By 2005, she was working hard at Community Partners in Action, the nonprofit that had resettled her.

the day of release, the staff waits for the Department of Correction bus to arrive in the early morning hours and greets the woman with open arms, as she is unshackled and begins her journey of freedom. (See "Journey to Freedom.")

It is widely recognized that the former prisoner will need this support. According to the Annie E. Casey Foundation, "The released prisoner faces not only the pressing task of getting a job, but also the challenge of finding a place to live. The two challenges are inextricably linked. Without a permanent address, job seekers are less likely to find work. Without a job, newly released prisoners returning to their community cannot afford to pay rent—or make the security deposit often required. This scenario is further complicated by the lack of affordable housing in many communities, the prejudice many property owners have toward people with criminal records, and the prohibition often imposed by parole officers against living in certain neighborhoods. Federal housing law prohibits certain persons convicted of drug offenses from living in public housing, further limiting the options available."

Understandably, one of the CPA Resettlement Program's greatest challenges is accessing safe and affordable housing for participants immediately upon release from prison. Without housing, an individual has no stability and is more likely to return to negative behaviors. CPA's resettlement program works diligently with community providers to explore new ways to assist with housing needs. In August 2005, the resettlement program opened CPA's first transitional home, Doris House. It provided safe, supportive, stable housing for three program participants moving from a shelter to their own apartments. In January 2008, a second transitional house opened, one that can accommodate up to eight women. In this and other ways, resettlement outreach is helping ex-offenders. As many of the nearly 2,000 women that the CPA resettlement has helped since 1992 can testify, a little support can make a world of difference.

Debbie Rogala, *MSW, is Resettlement Program Manager for Community Partners in Action in Hartford, Connecticut.*

Endnote

[1] According to a 2006 recidivism-rate study conducted by the Department of Criminology and Criminal Justice at Central Connecticut State University, Connecticut recidivism was at approximately 47 percent.

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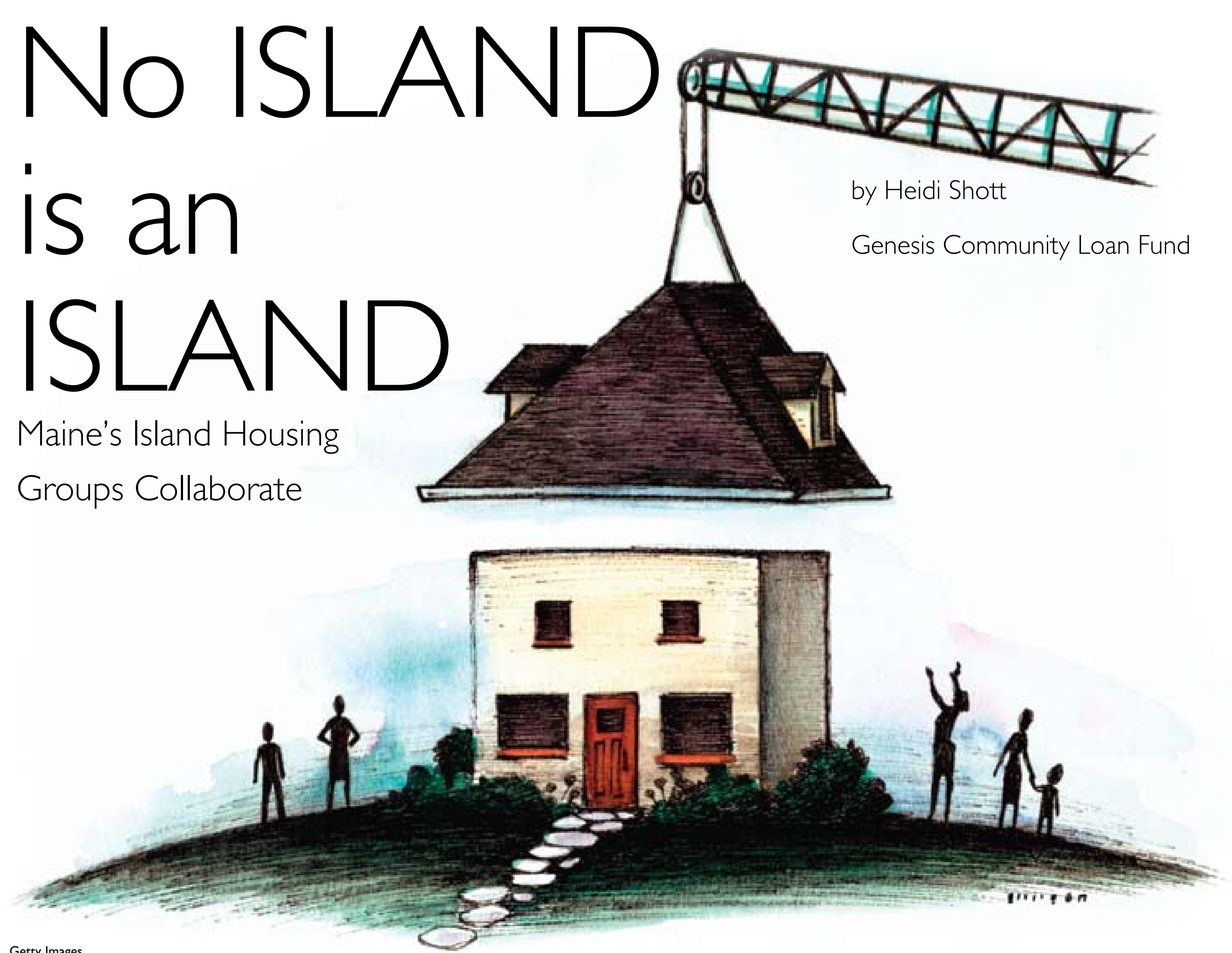
No ISLAND is an ISLAND

Maine's Island Housing Groups Collaborate

by Heidi Shott

Genesis Community Loan Fund



Getty Images

Ten years ago, residents of Vinalhaven, Maine's largest year-round island community, took the first step to address a growing concern. Many elderly neighbors and relatives were obliged to travel to mainland nursing facilities and often ended up living there permanently, away from families and friends. The residents contacted the Genesis Community Loan Fund (GCLF) to see if there was some way that people who needed nursing services could receive them on the island.

GCLF assisted the islanders with tasks such as nonprofit incorporation and grant writing, and by 2001, Vinalhaven Eldercare Services opened the Ivan Calderwood Home. The facility allows 16 islanders to receive the care they need while remaining part of their community as long as they live.

Islands' Unique Needs

The Calderwood Home project raised awareness that Maine's 14 off-shore island communities would need a source of grant funding and technical assistance to preserve and sustain year-round communities not only for elders, but also for young, working families.

Maine's unbridged island communities embody a cherished cultural and historical tradition. Their sustainability is threatened by escalating property values; expensive goods, services, and transportation; a lack of affordable workforce housing, medical care, economic development, or technological infrastructure; and uncertainty about the future of fishing in the Gulf of Maine.

GCLF, other concerned organizations, and islanders themselves saw the need for safeguards to ensure a strong social fabric. They began to collaborate. In so doing they may provide a model for other vulnerable communities.

Taking Action

In 2004, the Maine Community Foundation, the Maine Sea Coast Mission, the Island Institute, and GCLF formed the Islands Challenge Fund. A grant of $220,000 from Jane's Trust of Boston got the fund going, and since then it has been making $25,000 grants to island organizations developing affordable year-round housing.[1]

Progress Seen

The Islands Challenge Fund had an almost immediate impact. On Monhegan Island, where the year-round community hovers at around 70 people and the loss of one young fishing family can threaten the overall viability of the school and the winter community, there is new housing. In November 2007, the island's fifth affordable home sold with help from an Islands Challenge Fund grant.

As Doug Boynton, a Monhegan lobsterman and the first president of the Monhegan Island Sustainable Community Association (MISCA), said at a state capitol rally last year, even "six year-round affordable homes on Monhegan can make a big difference."

For Boynton, help from GCLF was critical because "most of us on the islands are so busy working that we don't have the extra time to find ways to get the funding and support we need to help the island community."

Despite being busy, Monhegan residents applied island resourcefulness to overcoming many financial and regulatory obstacles. Pushing beyond their comfort zone, they tapped summer residents to help raise funds. They reached beyond the island for financing assistance from the Genesis Community Loan Fund and Camden National Bank.

With the success of each new island project, the partnerships and the ease of operation between the island organizations and funding institutions has gained momentum. Camden National Bank Community Reinvestment Act officer Vera Rand says her bank has now made loans for "affordable housing, elderly housing, and sustainable initiatives on Islesboro, Vinalhaven, Monhegan, and North Haven. In addition, the bank has sponsored grant applications—through the Federal Home Loan Bank of Boston—that have been successful in garnering funds to support two projects."

Collaboration Grows

Collaboration is growing. To help people learn about activities on other islands and connect with nonprofit partners, an Islands Affordable Housing Symposium was held in April 2006. More than 100 legislators, islanders, and members of Maine's affordable housing community attended. That same month, the Genesis Community Loan Fund learned it had received a $300,000 grant award from the U.S. Department of Agriculture's Rural Community Development Initiative to help eight of Maine's islands build organizational capacity.[2]

Then in 2007, the Rockland-based Island Institute developed a second granting program to support affordable year-round island housing—the Affordable Coast Fund. In one more example of collaboration, that fund shares the Islands Challenge Fund's granting application process and uses the same grants committee, composed of residents from several islands and staff from supporting organizations. Thanks to the combined efforts of the funds, 11 grants totaling $215,000 had been awarded to island housing groups by spring 2008.

With the Islands Challenge Fund requiring contributions of at least an equal amount of local dollars before grant funds are released, islanders have raised $356,000 on their own. An additional $50,000 grant to the Genesis Fund from Jane's Trust in 2007 enabled subsidized interest rates (as low as 3 percent) on four loans to island groups to help them purchase homes that could be leased or resold to income-eligible island families.

Another example of collaboration has been with "intermediary organizations"—nonprofit housing developers that have the experience and capacity to assist islanders.

Avesta Housing of Portland, for example, is assisting the volunteer-led housing group on Peak's Island, HomeStart Inc. Similarly, Community Housing of Maine took the lead on a six-unit apartment building of affordable rental housing on Vinalhaven, where two-thirds of the 137 renter households in 2000 had annual incomes below $35,000.[3] With help from Community Housing of Maine, six qualified renters will be able to move to decent housing by 2009.

And every bit of help counts. As director Dale McCormick of the state housing authority, MaineHousing, puts it, islands have "special challenges." The challenges include higher costs for land, transportation, and construction—and a bigger portion of island income going to purchase goods on-island (where they are often marked up 25 percent to 30 percent) or to transportation for less expensive goods from the mainland.[4]

In addition, unexpected construction costs are harder to manage on islands. In one example, Islesboro Affordable Property began working on a five-acre parcel and encountered soil unsuitable for a septic field. It had to haul gravel from the mainland. Says director Joanne Whitehead, "The cost of these [three] septic systems increased to $15,000 to $17,000 a piece." If IAP had not brought in modular homes on barges, the septic-system surprise would have pushed the project over budget.

In 2007 IAP sold the first house to a teacher, a key community member who—after 17 years of renting from Islesboro summer people during the winter and moving out when they returned for the season—really needed a home.

Sharing Ideas

Increased interest in developing affordable housing has motivated islands to seek out and share information. Chebeague Island Community Association gives credit to Monhegan, Islesboro, and North Haven for materials on eligibility criteria and housing applications that led to the purchase of its first affordable home in 2007.

As the groups continue to learn from one another's successes and challenges, the capacity of the entire effort will grow. Islanders' get-the-job-done attitude will see to that. As Liza Fleming-Ives, the Genesis Fund associate director who administers both the Islands Challenge Fund and the USDA Rural Development grant, puts it, "Island people understand that finding a solution to their affordable housing crisis is critical to the survival of their communities and their way of life. ... I have such great respect for their intense dedication to serving their communities, even when it means taking on a role—like raising funds or learning the intricacies of ground leases—outside their comfort zone.

"Part of our work is technical, yes, but part of it is offering the encouragement that the work they are doing-ensuring that their island life is sustainable for their children and their grandchildren-may be long and hard, but it's worth it.

"Patience and hard work are two things that year-round islanders understand."

Heidi Shott *is communications director of the Genesis Community Loan Fund, which is based in Damariscotta, Maine.*

Endnotes

[1] See Jane's Trust, http://www.hembar.com/selectsrv/janes.

[2] GCLF applied for a RCDI grant for "pass-through" funds to eight named island groups. Not all 14 of the year-round islands qualified to be included in the grant. For example, Peaks Island was ineligible because it is in the City of Portland.

[3] *Housing Demand Analysis of the Town of Vinalhaven, Maine* (Hallowell, Maine: Planning Decisions Inc., 2004).

[4] See *Sustaining Island Communities* (Rockland, Maine: Maine Coastal Program, Island Institute, 1996), 85-87. Preliminary follow-up research conducted by the University of New England's Samuel McReynolds in 2006 confirmed that costs for island residents' basic supplies remained constant since the original research.

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MAINE'S Lifelong Learning Accounts

Good News for Workers, Businesses, and the Economy

by Auta Main

Getty Images

In late 2007, a group called Skills2Compete released a report refuting the idea that the new economy will depend primarily on a combination of very low-skilled jobs and very high-skilled jobs, with few of the jobs that support a healthy middle class. Skills 2 Compete argued that "the demand for workers to fill jobs in the middle of the labor market—those that require more than high-school, but less than a four-year degree—will likely remain quite robust relative to its supply."[1]

Will we have the skilled workers to fill those positions? And if not, how do we get more people to go beyond high school and pursue the education and training they need for critical jobs in health care and emerging high-growth industries like clean energy?

One of the biggest challenges is paying for the additional education and training. Some believe that employers should foot the bill because they benefit from a skilled workforce, others say that workers should pay, and still others consider it a government responsibility. A reasonable solution may be the Lifelong Learning Account, or LiLA, which enables all parties to share the cost.

What Are Lifelong Learning Accounts?

LiLAs are education and training savings accounts designed to leverage contributions from individual workers, employers, and third parties such as government agencies or nonprofits. They are similar to individual development accounts (IDAs) but are focused on education, whereas IDAs can be used for other purposes, such as housing.

They also differ from tuition-reimbursement plans. The employee builds a portable account with both an employer match and a third-party match, so the money is ready before registration. Moreover, any level of employee can build a LiLA, and there are advantages not generally associated with tuition-reimbursement programs. For example, career counseling is offered, and money can be spent on supplies and on classes unrelated to the industry the employee works in.

Jason Gamache, a carpenter at Morris Yachts in Bass Harbor, Maine, is one person who wanted to upgrade his welding skills and increase his knowledge of boat building. After Morris Yachts enrolled in Maine's Lifelong Learning Account pilot program, Gamache signed up and took welding classes offered by the local adult education center and the Eastern Maine Community College. Now he plans to use his LiLA money toward his Morris Yachts apprenticeship classes.

The Chicago-based nonprofit Council for Adult and Experiential Learning is the force behind LiLAs. Since 2001, CAEL has helped launch several small-scale initiatives nationwide. New demonstrations and pilot programs are adapting CAEL's LiLA model to specific uses, administrative structures, and target populations. The Maine Department of Labor, for example, is piloting LiLAs through its network of CareerCenters. They have partnered with Maine's NextGen college-investing plan to provide account management and with the Maine Centers for Women, Work, and Community to provide advice to LiLA participants. Of the employers who signed up for Maine's LiLAs, 75 percent had no tuition assistance before. Others like to supplement what they already offer.

LiLAs share the following design features:

- **Universality.** All individual workers are eligible for accounts.
- **Broad Use of Funds.** A wide range of uses are eligible, including tuition and fees, assessments, supplies, materials, and books.
- **Portability.** Even though employers can contribute to LiLAs—typically by matching the individual's contribution up to an established annual cap—the accounts are owned by the individual, regardless of the person's current employer or employment status.
- **Voluntary Participation.** Individuals and employers have the option of participating. The design encourages and facilitates widespread participation.
- **Informed Choice.** Individual participants choose what they need to meet their career goals based on a learning plan that is developed with educational and career advisers.

Good for Workers

In several of CAEL's demonstration programs around the country, participating workers have seen firsthand how using LiLAs to access education and training can change lives.

Tracey Perkins is another Maine example. A bookkeeper in the accounting department at gas manufacturer Maine Oxy in Auburn, she became one of the state's first LiLA holders in fall 2007. Although she had long known that an accounting degree was necessary for a promotion, she had been holding off. Tuition was just too expensive. When Maine Oxy decided to provide a LiLA program as a new education benefit, Perkins jumped at the opportunity. She is now taking classes at Central Maine Community College in Auburn and hopes to finish her degree by 2009. Meanwhile, Maine Oxy executives are grooming her to be the company's chief financial officer after the current CFO retires.

Good for Business

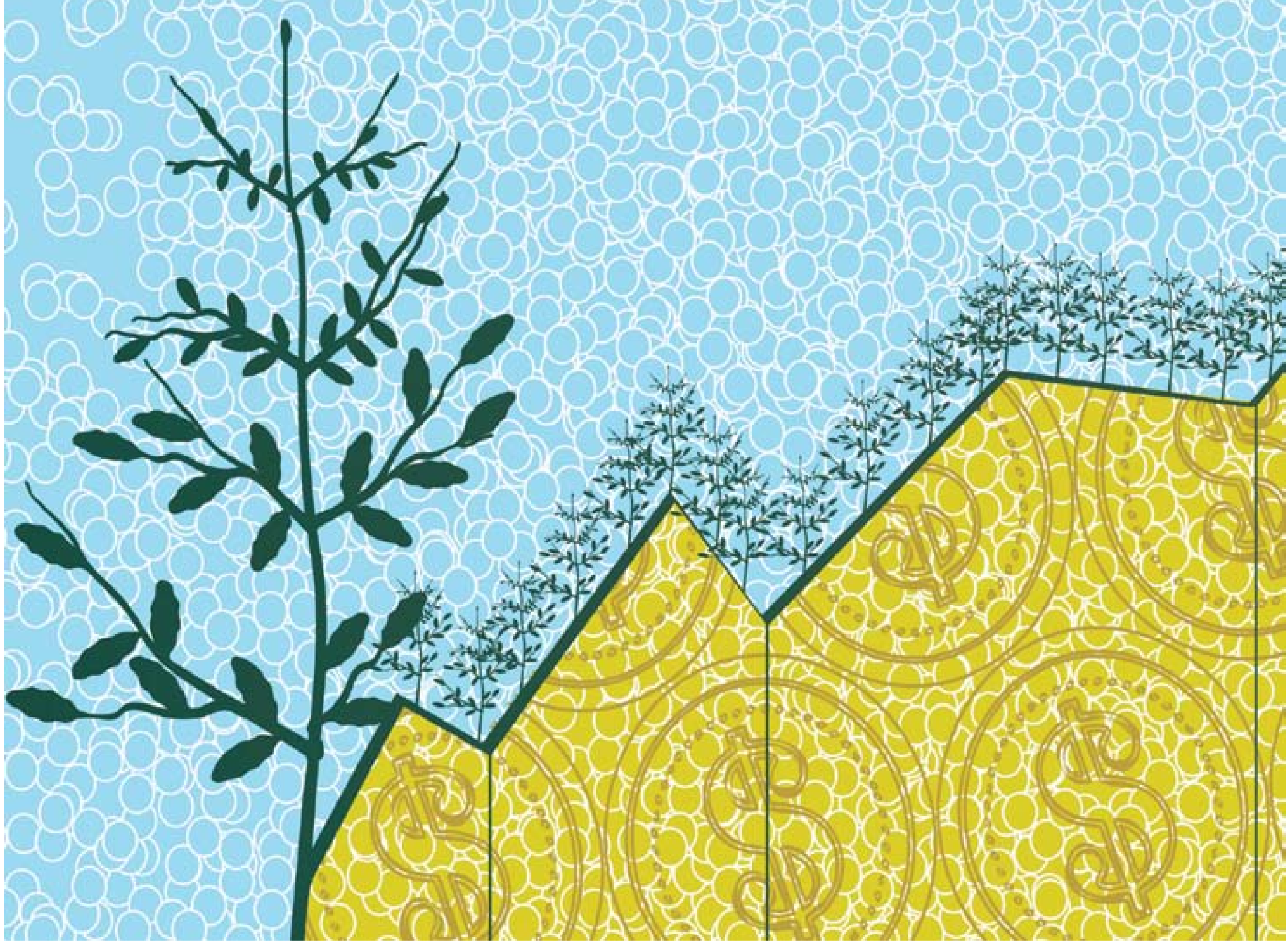
Workers are not the only ones to benefit. Employers who have participated in LiLA demonstrations across the country find that LiLAs are helping the business. They are an affordable benefit. In South Thomaston, Maine, the chief financial officer at Ask ... For Home Care reports that LiLAs are serving as a recruitment tool. "It's great to be able to offer possible employees the opportunity to further their education," Jodie Heal says. For a recent hire who wanted to attend nursing school in the fall, the deciding factor was Ask ... For Home Care's LiLA contribution. Additionally, she says that for current employees and home-care aides "to be able to continuously save toward these classes and have us match those funds, that's a big asset to them—and a major retention tool for us."

Human resource director Diane Claremont of employee-owned Maine Oxy agrees. "Our future relies on our employees. Educated individuals are our future and will bring this company into the next decade and beyond."

Other employers see LiLAs as a way to foster positive attitudes. Michael Coughlin, executive director of Goodwill Industries of Northern New England, has heard repeatedly from employees that help with funding education is important. When Goodwill announced its participation in the LiLA program, workers were thrilled. He hopes it "will create a sense among employees that there is a path to growth, even when management positions are in short supply. Employees who can better themselves through education are living the values and the mission of our organization: 'A hand up, not a hand-out.' "

Good for the Economy

CAEL's vision is for LiLAs to become a standard feature of employee compensa-



tion packages. Government champions are also working on the issue. In 2007, federal legislation was introduced in both the U.S. Senate and House of Representatives that would establish demonstration LiLAs in up to 10 states and give both employers and employees a tax credit for their account contributions. In cooperation with CAEL, Maine's Congressional Delegation has supported and cosponsored the federal LiLA legislation in both houses.

U.S. Senator Olympia Snowe, a cosponsor of the Senate bill, says, "The Lifelong Learning Accounts program will give millions of Americans an opportunity to develop the skills necessary to compete in an increasingly knowledge-based economy." U.S. Representative Tom Allen says, "Stunning advances in science and technology are creating exciting opportunities for American businesses and American workers, but to take advantage of the promise these innovations hold and for America to remain competitive in the global economy, we must have a workforce with the education and training to fill the jobs businesses create. ... We see Lifelong Learning Accounts as a way to keep our workforce educated and current in today's technology and business environments."

In addition to the federal efforts, several state officials are working to make LiLAs available on a larger scale, sometimes with government-sponsored incentives such as additional matching dollars for low- or moderate-income workers or tax credits for individual employer contributions. Maine has established the first phase of a state-based program in which the state's finance authority manages the investment of LiLA funds through the NextGen program.

Although LiLAs provide a promising response to the need for a competitive workforce, they are not a replacement for current employer-based education and training benefits, which education consulting firm Eduventures has estimated could be as high as $20 billion annually. Nor can they be a substitute for targeted aid to disadvantaged populations. Instead, LiLAs help to fill a gap in the current landscape of funding for worker education. They can help the working poor, individuals in dead-end jobs, workers and employers in highly competitive industries, and they can help retrain workers in professions that are becoming obsolete. In getting individuals, employers, and government to co-invest, they make education a more affordable prospect for all. As one LiLA account holder says, "People should never stop learning. The LiLA program helps you financially, and it won't break the bank."

Auta Main *is LiLA program manager for the state of Maine. She is based in Augusta.*

Endnote

[1] Harry J. Holzer and Robert I. Lerman, *America's Forgotten Middle-Skill Jobs* (Washington, DC: Skills2Compete Campaign, November 2007).

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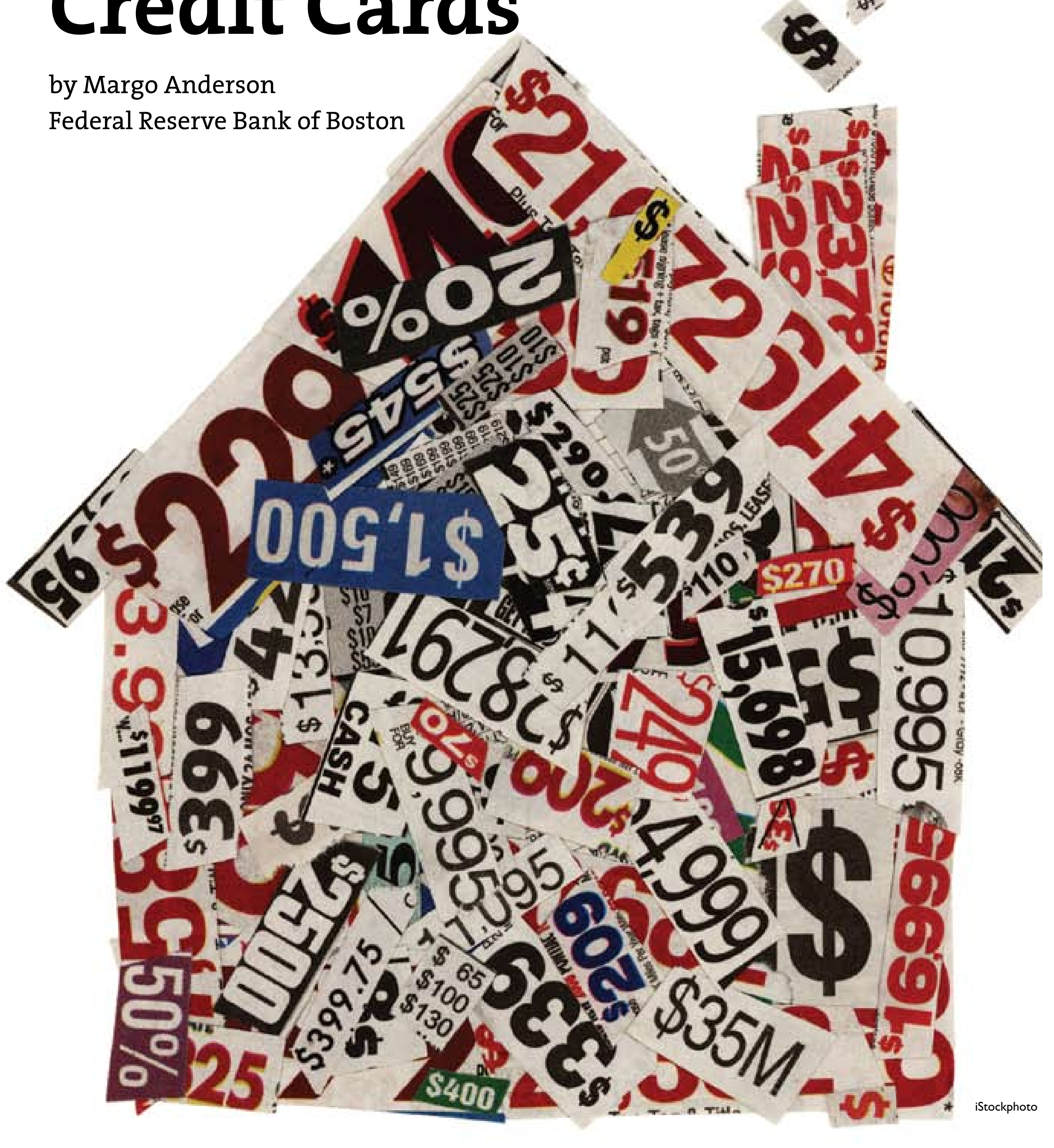
From Subprime Mortgages to Subprime Credit Cards

by Margo Anderson
Federal Reserve Bank of Boston



iStockphoto

In the wake of the subprime housing crisis, there are indications that subprime credit cards may be the next turbulent sector. According to Federal Reserve statistics, credit card charge-offs (loans removed from the books and declared a loss) rose almost three-quarters of a percent during the first quarter of 2008 up to a level of 3.94.[1] At the 100 largest banks, delinquencies increased from 4.24 percent to 4.47 percent (the ratio of loans 30 days or more overdue to total loans). At the same time, credit card giant Capital One Financial Corp. cut its fourth quarter earnings estimate and reported a $1.9 billion provision for losses from loans. HSBC Holdings plc. took a $1.4 billion charge on its American consumer-finance business, which was partly attributable to weakness in the credit card sector.[2] Even American Express, which boasts the most affluent customer base, took a fourth quarter charge for rising delinquencies and charge-offs.[3]

Subprime Borrowers

Despite these potentially threatening signs, the market research groups Synovate and Mintel note that card companies are actively courting subprime customers. (See "Who Is a Subprime Borrower?") During the latter half of 2007 credit card companies increased solicitations to subprime borrowers by 41 percent.[4]

Industry observers worry that these people will accept the credit card offers because they can no longer use the equity in their homes for cash, given declining housing values. That could spell trouble for credit card issuers and the markets as a whole. Similar to mortgages, credit card loans are organized into categories by risk level, packaged, sold and resold as collateralized debt obligations (CDOs). If consumers were to become delinquent in large numbers, the value of these obligations would decrease, potentially leading to investment losses similar to those experienced within the mortgage industry. In fact, in the case of mortgage CDOs, even the perception that mortgages might be delinquent has reduced the value.

Subprime Credit Card Business Model

After the recent subprime mortgage debacle, it may seem surprising that credit card companies heavily solicit subprime consumers. Industry insiders argue, however, that the subprime credit card business differs from the subprime mortgage business in the way it is structured, and a confluence of events could make subprime consumers an attractive and profitable customer base.

Initially, credit cards had fixed rates of around 20 percent and few fees.[5] But today many card issuers embrace a practice called risk-based pricing. Cards have more diverse interest rates and higher fees depending on cardholder creditworthiness. According to data reported to the U.S. Government Accounting Office in 2005, about 80 percent of credit card accounts have interest rates of less than 20 percent; 40 percent have rates below 15 percent. However, card companies assessed late fees on 35 percent of accounts and over-limit fees on 13 percent of accounts.

All cardholders are affected to some degree by risk-based pricing, but subprime consumers are most adversely affected. Companies charge them high up-front fees and provide small credit limits. Some of the cards in the subprime category allow credit of only $250.[6] Card issuers immediately deplete cardholder credit availability by charging a number of fees. On a credit limit of $250, a cardholder may be left with only $71 in available credit. (See "Fees for Issuance or Availability of Credit.")

These types of cards are profitable for several reasons. Low credit limits ensure that card companies don't incur great risk on customers with poor credit histories. High up-front fees mean that even if customers default on some of the debt, the card company will still have taken in money. And they may earn extra money from credit insurance. In that line of business, borrowers pay a percentage of their balance to the card company on a monthly basis in exchange for the right to freeze or suspend the obligation to pay the card balance in prescribed circumstances.

To address complaints from consumers, the Federal Reserve Board of Governors made several proposed rule changes in both 2007 and May 2008. The proposed rules include changes to Regulation Z, which enforces the Truth in Lending Act, and complementary revisions to Regulation AA, which prohibits unfair and deceptive practices.[7] For instance, if a card issuer imposes required fees in exchange for a credit card, and if the total of those fees equals 25 percent or more of the minimum credit limit offered on the card, then the card company would have to include a table outlining the remaining available credit. That and other changes to the regulation of open-end credit are pending, but in general they aim to ensure that the terms of the credit offer are "clear and conspicuous."[8]

The 2005 Bankruptcy Law

Another reason that credit card companies are willing to lend to subprime borrowers relates to recent changes to federal bankruptcy laws. In 2005, Congress enacted the Bankruptcy Abuse Prevention and Consumer Protection Act. Debtors who make above their state's median income and have extra money after allowable expenses must repay some of their debt even if they enter bankruptcy. The law is more stringent than the older law, which allowed a bankruptcy judge to decide who could walk away from their debt.

That change opened a new marketing opportunity for credit card companies because the law makes it more likely that

Fees for Issuance or Availability of Credit: An Example

Available Credit on Card	$250
Account Set-up Fee	$29 (one-time fee)
Program Fee	$95 (one-time fee)
Annual Fee	$48
Monthly Servicing Fee	$ 7 (x 12 months is $84 in a year)
Total Fees	$179
Credit Left After Fees	$71

Who Is a Subprime Borrower?

A determination about whether a borrower is prime or subprime is based largely on the borrower's credit score.

The credit score is derived from the consumer's credit history, which is collected by credit reporting agencies like Experian, Equifax, and Transunion. These companies compile information about the borrower's timeliness in paying bills, debts sent to debt collection agencies, amounts of outstanding debt, and the number, type, and age of credit accounts. Whereas credit reporting agencies compile credit information, a company called Fair Isaac & Co. transforms credit histories into credit scores using a proprietary formula. The scores range from 300-850. A score of less than 660 is considered subprime.[a] Lenders use credit scores to make lending decisions because they believe that the historical data represented in the credit score can predict a borrower's likelihood to repay a loan. About 27 percent of the credit card market serves people with credit scores of 660 or less.[b]

[a] "Subprime Lending, Expanded Guidance for Subprime Lending Programs," http://www.federalreserve.gov/boarddocs/press/boardacts/2001/20010131/attachment.pdf.

[b] See "Understanding Your Credit Score," http://www.fairisaac.com/NR/rdonlyres/DA689E4A-08E8-42C7-9DD0-1D87FA6ED726/0/UnderstandCreditScoreBklt.pdf; and Vikki Frank, "Helping Clients Build Credit," *Communities & Banking* 18, no. 4 (fall 2007).

debtors will repay their credit card debt even after they seek bankruptcy protection. To assess just how likely, the risk-assessment company Fair Isaac has developed a FICO Bankruptcy Risk Score that "rank-orders consumers according to the likely bankruptcy loss ratio (bankruptcy losses divided by revenue) each consumer represents to a credit grantor."[9]

This dynamic may at least partly explain the increase in solicitations to subprime borrowers. Observers have also noted that because home values are decreasing and offer less equity to tap, borrowers who do not have enough money to pay both their mortgage and their credit card bill may be more willing to pay the latter. Borrowers are beginning to reason that because they owe more than the house is worth, it is better to maintain an easy source of credit than to keep a house that they cannot afford anyway.

However, if housing pressures continue to plague the economy or if the nation enters a recession, subprime borrowers may begin to have trouble even if they make credit card payments in a timely manner. Credit card companies that consider these borrowers a delinquency risk may exercise their right under the card agreement to increase interest rates, reduce the credit limit, or close a consumer account entirely, which would further deteriorate a subprime customer's credit score and cause other card issuers to take similar steps. Thus, while credit cards are a valuable financial tool, consumers must understand their card agreements so that they are aware of all the ramifications of credit card usage.

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Endnotes

[1] These statistics represent seasonally adjusted delinquincies for the 100 largest banks during the first quarter of 2007 and the first quarter of 2008, www.federalreserve.gov/releases/chargeoff/deltop100sa.htm

[2] "Card Sharks: Is the Subprime Mortgage Crisis Infecting America's Credit Card Market?" *The Economist*, November 29, 2007, www.economist.com/finance/printerfriendly.cfm?story_id=10229961.

[3] "Industry Outlook Darkens after Amex's Warning," American Banker, January 14, 2008, www.americanbanker.com/printthis.html?id=20080111UKTBCZ0Q.

[4] Robert Gavin, "Card Companies Woo Struggling Mortgage-Holders," *Boston Globe*, September 4, 2007; and Liz Pulliam Weston, "Let's Punish Lenders of Easy Credit," Dec 6, 2007, http://articles.moneycentral.msn.com/Banking/CreditCardSmarts/LetsPunishLendersOfEasyCredit.aspx.

[5] "Credit Cards, Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers" (GAO-06-929, U.S. Government Accountability Office, Washington, DC, September 2006).

[6] "Fee Harvesters: Low-Credit, High-Cost Cards Bleed Consumers" (Washington, DC: National Consumer Law Center, November 2007), p. 6. For numerous examples of credit cards targeted to people with bad credit, see http://www.creditcards.com/bad-credit.php.

[7] The Federal Reserve has proposed changes to section of Regulation Z, which implements the Truth-in-Lending Act, impacting open-end credit disclosures, particularly credit card disclosures. Changes to Regulation AA, which prohibits unfair and deceptive practices by banks, are also expected.

[8] "Proposed Rules," *Federal Register* 72, no. 114 (June 14, 2007).

[9] See http://www.fairisaac.com/fic/en/product-service/product-index/credit-bureau-bankruptcy-scores.

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FUNDING
New England's Co-operative Movement

by Erbin Crowell

The Cooperative Fund of New England

Getty Images

Muhammad Yunus, Nobel Prize-winner and founder of Bangladesh's Grameen Bank, recently proposed the establishment of "social businesses" as a response to global poverty. Yunus said such enterprises would have a mission of bettering people's lives and would relieve pressure on governments and nonprofits through sustainable economic solutions to human needs. In this model, investors would contribute start-up funds not for a monetary return but for a social purpose.

When Yunus spoke, the media took notice, but few people were aware that there was already such a model serving millions of people worldwide.

The model is the "co-operative," and its primary purpose is to address community needs—often in areas that have been ignored by mainstream businesses. Co-ops provide people with groceries, housing, and health care. They help farmers market products. They provide loans, savings accounts, and other financial services where the need is greatest. The International Co-operative Alliance (ICA) estimates that there are more than 800,000 co-ops worldwide serving over 730 million members and including everything from small buying clubs to Fortune 500 companies.[1] The ICA's annual list of the world's largest co-operatives—the Global 300—has included such familiar names as Ocean Spray, REI (Recreational Equipment Inc.), and the Associated Press. The ICA list helps quantify the movement's contribution to a more democratic, sustainable, and accountable global economy.[2] Although many co-ops have scaled up to serve their members more efficiently and effectively, most co-operatives are found at the grassroots level, where they address local needs on a local basis.

But whether they do international banking or microlending, comprehensive health care or day care, food production, distribution, or retailing, what most defines a co-operative is being owned and democratically controlled by the same people who use its services.

The Roots of Co-operation

People have always worked together to achieve economic and social goals, but the modern co-operative movement probably began in 1844 in the northern England town of Rochdale. That year, a group of weavers and other workers who were concerned about poor working conditions, low pay, and expensive, low-quality food, pooled their resources to open a grocery. The store was owned and controlled by the community people who shopped there. The goals and principles established by the "Rochdale Pioneers" formed the basis of the co-operative movement.

Today co-operatives are on every continent and in every major industry. The definition of a co-op has been updated by the International Co-operative Alliance to describe "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise." And although co-ops are not all alike, they share the principles of voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education programs, co-operation among co-operatives, and concern for the community.

Co-ops vary in structure and scale, but in most cases they are groups that have come together to address a common need or to serve a common mission. Members invest at least a voting share in their co-operative and govern the enterprise on the basis of one member, one vote (in contrast to corporations and some worker-owned businesses in which votes are allocated according to the number of shares held). Members usually elect a board of directors, which hires management to operate the business. Additionally, co-ops may pool their efforts and resources by forming federations of co-operatives.

This simple model—common in communities that have been traditionally underserved—has empowered many people of modest means. In the United States, for example, rural electric and telephone co-ops have helped provide services to remote communities. Credit unions offer checking accounts, loans, and other financial services to members. And producer co-ops have transformed isolated family farmers into major actors in agriculture and have helped many move into markets such as organic foods.

Willimantic Food Co-op has grown steadily since the 1970s and recently moved into space formerly occupied by a supermarket. Photograph: Erbin Crowell

Ways to Fund Co-operation

The Cooperative Development Institute, which serves co-op enterprises in the Northeast, reports that New England and New York together have roughly 10,000 co-ops with 10 million members. The businesses are as varied as Vermont-based Cabot Creamery Co-operative, founded in 1919, and the worker-owned copy shop Collective Copies, founded in 1983.[3] Because they are rooted in their communities, all co-ops contribute to the local economy. Co-operatives also work together across sectors and national boundaries to form what may be described as the "co-operative economy."

Because co-ops often face challenges obtaining sufficient resources for growth, a

group of activists founded the Cooperative Fund of New England (CFNE) in 1975. A 501(c)3 nonprofit, CFNE is a certified community development financial institution (CDFI) that transforms the resources of social investors (individuals, socially responsible investment firms, religious organizations, or other co-ops) into loans and other assistance to co-operative businesses, democratic worker-owned enterprises, and community-based nonprofits.

Launched with just $25,000, CFNE has raised over $14 million in investment, making more than 400 loans to new or expanding co-operatives and community organizations. Among its borrowers are the Willimantic Food Co-op in Connecticut, Deep Root Organic Cooperative in Vermont, Massachusetts-based Equal Exchange, and Oak Street Housing Co-op in Bath, Maine.

Willimantic Food Co-op

Willimantic Food Co-op started small as a 1970s buying club for families seeking organic and unprocessed foods. Today it has completed its third expansion move, taking over space formerly occupied by a supermarket. With more than 4,500 members and about $3 million in sales in 2007, the co-op has been named "Regional Business of the Year" by the Willimantic Chamber of Commerce.

Deep Root Organic Cooperative

The globalized marketplace presents challenges to New England's family farmers. Deep Root Organic Cooperative helps them compete by providing marketing and distribution for members' organic vegetables. Today their products are found in produce departments of co-op groceries such as Willimantic Food Co-op and in conventional natural foods stores.

Equal Exchange

One of the pioneers in the market for organic and fairly traded products is Equal Exchange. Founded in 1985 to create stronger relationships between consumers and family farmers in the developing world, Equal Exchange is a worker co-operative with more than 100 employees in Minnesota, Wisconsin, Oregon, and Massachusetts. The co-op markets coffee, tea, chocolate, and other products grown by small farmer co-ops worldwide. In 2007 it surpassed $29 million in sales.

Oak Street Housing Co-op

Oak Street Housing Co-op demonstrates another way co-ops make a difference. The city of Bath established Oak Street, a five-member co-op (a residence with five units), to provide housing for low-income residents. President Ron Leady contends that it offers more than the usual co-operative benefits and "has made me a better person."

Supporting the Next Wave of Co-operation

A barrier to launching a co-op, sustaining co-op growth, or converting to the co-op model is the lack of access to equity capital that fits the member-control model. Like any other business, co-operatives often need equity capital—for market studies, architecture and engineering work, organizational costs, training, and legal fees. Many opportunities involve high entry costs, too, and co-ops sometimes need help establishing a working-capital or cash-flow cushion. Additional equity also can help businesses leverage debt from lenders, banks, vendors, or landlords.

Co-op members often lack enough collective wealth for a desired initiative. In standard venture capital arrangements, businesses issue stock to outside investors, and it's increasingly common for successful socially or environmentally responsible businesses to sell a controlling interest to a larger corporation. But that generally means giving up board seats and allowing outsiders an active hand in management, which subverts the principle of member control. Also at odds with co-op thinking is the typical venture capital investor's emphasis on short-term gain over long-term asset building.

In response to co-ops' need for *patient* capital, CFNE established the Cooperative Capital Fund in 2007.[4] Its goal is to augment CFNE's current loan services by providing new capitalization options that perform like equity without changing a co-op's member-owned and -controlled uniqueness. CFNE also has begun working with the Cooperative Development Institute to provide co-ops with the training, technical assistance, and support they need to keep improving service to members and communities.

Strengthening Co-op Entrepreneurship

Co-operatives have long helped people to help themselves and strengthen their communities. Now, as social responsibility and green business become the current watchwords, the co-op model is generating intensified attention. But in order for co-ops to grow and thrive, they need access to financial and technical support that emphasizes the values and benefits of co-operation rather than conventional business priorities. In fact, they may need a new word—a word that describes the entrepreneurship of ordinary people building grassroots economic institutions that help individuals find common solutions to collective challenges.

Perhaps the new buzzword should be "co-opreneurship."

Erbin Crowell *is president of the Cooperative Fund of New England and a co-op development specialist with the Cooperative Development Institute, based in South Deerfield, Massachusetts. He also serves on the board of directors of the National Co-operative Business Association in Washington, DC.*

Endnotes

[1] See http://www.ica.coop/coop.

[2] See http://www.global300.coop.

[3] See http://www.cdi.coop.

[4] See http://www.coopfund.coop.

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Press Release

Federal Reserve Announces Launch of National Minority-Owned Bank Program

June 18, 2008. The Federal Reserve System today announced the nationwide launch of Partnership for Progress, an innovative outreach and technical assistance program for minority-owned and de novo institutions. The program seeks to help these institutions confront their unique challenges, cultivate safe and sound practices, and compete more effectively in today's marketplace through a combination of one-on-one guidance, workshops, and an extensive interactive web-based resource and information center (http://www.fedpartnership.gov/).

"The program's overarching mission is to preserve and promote minority-owned institutions and to enhance their vital role in providing access to credit and financial services in communities that have been historically underserved," said Federal Reserve Board Chairman Ben S. Bernanke. "The Federal Reserve is committed to helping minority-owned and de novo banks achieve long-term success."

Partnership for Progress provides insight on key issues in three distinct stages of a bank's life cycle: "Start a Bank," "Manage Transition," and "Grow Shareholder Value." Topics covered include credit and interest rate risk, capital and liquidity, and banking regulations. To ensure broad access to the program, all aspects of the training will be available through workshops, online courses, and the program's interactive web site.

"This cutting-edge program, which draws on insights from economics, accounting, finance, and regulatory compliance, will become a valuable resource for institutions at different stages of their development," said Federal Reserve Board Governor Randall S. Kroszner.

In developing the program, Federal Reserve officials met with minority-owned and de novo banks across the country as well as trade groups, bank consultants, and state and federal banking agencies to better understand the challenges these institutions face in raising capital, growing their institutions, and attracting talent. This process provided valuable insight and contributed significantly to the design of the program, which was spearheaded by the Federal Reserve Bank of Philadelphia. Key concepts from the program will be incorporated into the Federal Reserve System's examiner training to provide a deeper understanding of the issues unique to minority-owned institutions.

The nationwide launch of Partnership for Progress follows a successful pilot for the program that began last fall. Questions and comments regarding the program should be directed to Marilyn Wimp at the Federal Reserve Bank of Philadelphia, 215-574-4197.

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May 2008: Federal Reserve Board Governor Randall S. Kroszner (left) and Federal Reserve Bank of Boston President Eric Rosengren pay a visit to Dorchester's Hendry St. neighborhood. The City of Boston has targeted Hendry St. for special help with foreclosure. A family's recent purchase of the house above gives hope of a turnaround. (Photograph: Kai-yan Lee)

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