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Fishing Communities
in New England

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Contents

New England Fishing Communities:

Prospects and Uncertainties

by Robert J. Johnston, Daniel S. Holland, and Seth Tuler

New commercial fishing regulations designed to enhance the long-term viability and profitability of New England fishing will create benefits and costs for fishermen. Support from policymakers, nonprofits, and banks can help keep small-scale fishermen and their communities viable while benefiting the region overall.

Fish and Fisheries

Fish that live near the bottom of the body of water they inhabit, such as cod, haddock, flounder, halibut, and hake, are called groundfish, and have long been important to New England's economy. The Northeast Multispecies Fishery Management Plan controls the New England and Mid-Atlantic groundfish harvest. Since 1994, it has done so primarily by limiting the number of vessels, allowable days of fishing, and the number of certain species that can be caught, or *landed*, per trip.

Regulations scheduled for implementation in 2010 represent a radical change. Designed to protect groundfish stocks and promote profitability, they are expected to lead to widespread adoption of *sectors*.[1] Sectors are self-organized groups of fishermen permitted to harvest a specific quantity and type of fish annually. So instead of having regulations that specify the number of vessels, days of fishing, and species landed, the focus is on the ultimate goal of limiting the harvest to sustainable numbers, and it is the group of fishermen who decide how to get there. Each sector can determine its own rules for managing fishing, provided they keep the catch within their limits. The increased efficiency should lead to greater profit.

Northeast Groundfish Landings and Revenues, 2004 – 2007

	2004	2005	2006	2007
Total groundfish landings	79,619,512	65,497,279	49,956,475	60,584,026
Constant (1999) revenues	84,489,706	85,074,085	76,800,650	84,241,285

Source: New England Fishery Management Council, "Draft Amendment 16 to the Northeast Multispecies Fishery Management Plan," April 15, 2009.

In New England, there are two currently operating sectors, Georges Bank Cod Hook Sector and Georges Bank Cod Fixed Gear Sector, which have proposed merging. Sixteen new sectors have submitted operation plans.[2] Together these sectors could be allocated more than 90 percent of the allowable commercial catch of most groundfish.

Until now, most observers agree, Northeast groundfish regulations have fallen short of both biological and economic goals. Increasingly restrictive controls have stabilized some fish stocks and have increased others, with Georges Bank haddock one success. However, as of 2007, stocks were still overharvested for 15 of 19 New England groundfish. From 2004 to 2007, groundfish landings declined, and inflation-adjusted gross revenues remained flat, while expenses for fuel and other inputs increased.[3] (See "Northeast Groundfish Landings and Revenues, 2004 – 2007.") In New England communities experiencing the harshest effects from regulation, fishermen have consolidated, switched to other fisheries, or abandoned fishing. The number of vessels landing groundfish declined each year between 2004 and 2007. (See "Vessels Landing Groundfish in Primary Ports, 2004 – 2007.")

Fishery declines often cause fishermen and other members of their communities to undergo family stress, heavier workloads, reduced income, social tensions, and increased need for social services.[4] Fishermen may delay boat repairs, skimp on safety, fish with fewer or less experienced crew, or forgo boat insurance.[5] Some qualify for disaster relief funds. Others retire or shift to an activity like charter fishing. Shore businesses often reduce staff.

Can the Sector Approach Help?

The sector approach is not a panacea. Many problems facing fisheries result from an excess of boats and fishermen relative to what current fish stocks can support. For some species to recover, catches must be further reduced. Although that will likely have negative economic implications in the short run, there is a broad expectation that sectors will improve the industry's overall performance and reduce the impetus to discard harvested fish to meet regulations (a wasteful process known as *regulatory discarding*). Sectors also could foster cooperation to deliver more consistent product year-round, reduce costs, and diminish negative environmental impacts.

Similar harvest cooperatives in fisheries worldwide show positive results—longer seasons, increased profits, reduced waste, higher-quality products, and safer fishing.[6] A National Research Council study of related programs concludes that allocation of permits to take a portion of the allowable harvest is a "tool with high potential for efficiency and stewardship" that can help "to prevent a race for fish and overharvesting."[7]

Vessels Landing Groundfish in Primary Ports, 2004 – 2007

Community	2004	2005	2006	2007	2004-2007
Portland, ME	111	109	94	75	-32.43%
Portsmouth, NH	41	25	27	19	-53.66%
Gloucester, MA	202	203	168	166	-17.82%
Boston, MA	24	29	24	32	33.33%
Chatham/Harwichport, MA	116	96	71	59	-49.14%
New Bedford/Fairhaven, MA	182	158	153	165	-9.34%
Point Judith, RI	78	75	74	76	-2.56%
Eastern Long Island, NY	69	62	79	74	7.25%
Total	823	757	690	666	-19.08%

Source: New England Fishery Management Council, "Draft Amendment 16 to the Northeast Multispecies Fishery Management Plan," April 15, 2009.

Moreover, models of prospective community-based sectors in Portland and Port Clyde, Maine, suggest possible revenue gains of 16 percent to 79 percent.[8]

Concerns do remain. Sectors will create new administrative costs (estimated at $60,000 to $150,000 per sector) and additional monitoring costs that the industry will have to fund. And although sectors can promote community-based fishing, consolidation could potentially lead to inequity and social tension.[9] Income may be greater and more stable for some, while consolidation reduces employment overall.

The Role of the Banking Community

Whether the industry can be maintained and strengthened depends on many factors, including banking support. Access to financing with reasonable terms is critical to enable smaller fishermen to purchase permits to expand their businesses and to let young fishermen enter the industry.

Permit banks, cooperatives that purchase vessel permits, are one option. Permit banks could be set up with voting shares owned by sector members, perhaps in coordination with community organizations or municipalities. Some organizations have already started permit banks, including The Cape Cod Commercial Hook Fishermen's Association, the Mid Coast Fishermen's Association, the Penobscot East Resource Center in Maine, and the Gloucester (Massachusetts) Fishing Community Preservation Fund.

The permit banks have relied on financing from foundations, charitable giving—or, in the case of Gloucester, mitigation money received for accepting a liquid natural gas terminal. However, bank financing might provide a larger, more secure source. The share of a sector's annual catch allocation contributed by permit-bank vessels could be leased to sector vessels at rates sufficient to repay loans. Federal loans or guarantees might also finance permit banks. Regardless of the financing mechanism, a transition to sectors is bound to heighten

The fishing fleet at rest in the harbor, Point Judith, Rhode Island. Photographs: Sandra M. Kelly

the importance of capital access.

The next 12 months will likely witness a major change in New England fishery management. Sectors, with appropriate regulation and access to capital, could offer the best hope of renewed prosperity for New England fishermen and their communities.

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Endnotes

1. New England Fishery Management Council, "Draft Amendment 16 to the Northeast Multispecies Fishery Management Plan," April 15, 2009.
2. The Hook Sector catches fish using hooks; the Fixed Gear Sector uses nets that catch fish by the gills.
3. In technical terms, these stocks are either overfished, subject to overfishing, or both.
4. J. Olson and P.M. Clay, "An Overview of the Social and Economic Survey Administered during Round II of the Northeast Multispecies Fishery Disaster Assistance Program" (National Oceanic and Atmospheric Administration Technical Memorandum NMFS-NE-164, Northeast Fisheries Science Center, Woods Hole, Massachusetts, 2001); S. Tuler, T. Webler, and C. Polsky, "A risk-based approach to rapid vulnerability assessment in New England fishery communities, a case study of the groundfishing sector in New Bedford, Massachusetts" (report 09-004, Social and Environmental Research Institute, Greenfield, Massachusetts, 2009).
5. Although Coast Guard reports show no sign of resulting declines in vessel safety, some studies suggest that factors undermining safety, such as workload, fatigue, and crew reductions have been exacerbated. See, for example, D. Georgianna and D. Shrader, "Employment, income, working conditions and vessel safety in New Bedford after Amendment 13 to the Multispecies Management Plan" (final report for Contract NA05NMF4721057/UNH PZ06083, University of Massachusetts, Dartmouth, Massachusetts, 2008).
6. Unlike cooperatives, sectors have annual allocation based on the aggregate shares of the permits (vessels) in that sector. Members coordinate harvests to stay within allocations. The sector and its members are held collectively accountable. Membership can change each year, with the sector's harvest allocation adjusted according to members' permit shares. See R. Townsend, R. Shotton, and H. Uchida, eds., "Case Studies in Fisheries Self-Governance" (FAO technical paper no. 504, Rome, Italy, 2008).
7. National Research Council, "Sharing the Fish: Toward a National Policy on Individual Fishing Quotas" (Washington, DC: National Academy Press, 1999).
8. D. Holland, "Community-Based Sectors for the New England Groundfish Fishery" (final report submitted to the National Marine Fisheries Service, Northeast Fisheries Science Center, Gulf of Maine Research Institute, Portland, Maine, 2007).
9. S. Tuler, J. Agyeman, P. Pinto da Silva, K. LoRusso, and R. Kay, "Assessing Vulnerabilities: Integrating Information about Driving Forces that Affect Risks and Resilience in Fishing Communities," *Human Ecology Review* 15 (2008): 171-184.

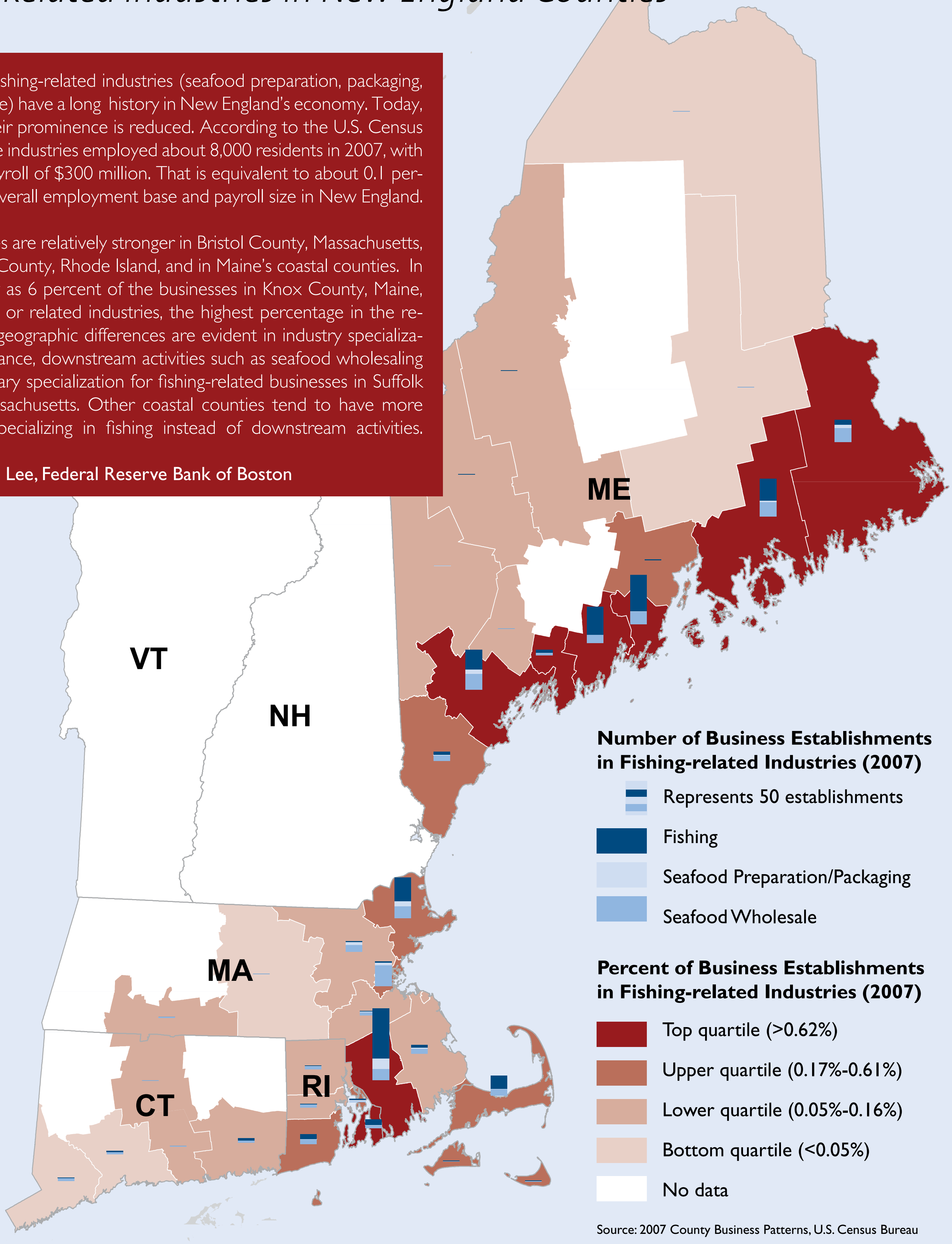
Mapping New England

Fishing-Related Industries in New England Counties

Fishing and fishing-related industries (seafood preparation, packaging, and wholesale) have a long history in New England's economy. Today, however, their prominence is reduced. According to the U.S. Census Bureau, these industries employed about 8,000 residents in 2007, with an annual payroll of $300 million. That is equivalent to about 0.1 percent of the overall employment base and payroll size in New England.

The industries are relatively stronger in Bristol County, Massachusetts, in Newport County, Rhode Island, and in Maine's coastal counties. In fact, as many as 6 percent of the businesses in Knox County, Maine, are in fishing or related industries, the highest percentage in the region. Other geographic differences are evident in industry specialization. For instance, downstream activities such as seafood wholesaling are the primary specialization for fishing-related businesses in Suffolk County, Massachusetts. Other coastal counties tend to have more businesses specializing in fishing instead of downstream activities.

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



Source: 2007 County Business Patterns, U.S. Census Bureau

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PREVENTING Foreclosure Displacements

by Becky Regan, Boston Community Capital

Although foreclosures are taking a toll on New England's low-income communities, most countermeasures focus on preventing foreclosure and disposing of properties after foreclosure, not on keeping properties occupied through the process. In Massachusetts, however, a coalition of community advocates, legal aid organizations, lenders, and low-income residents is having success keeping foreclosed homeowners and tenants in their homes and preventing the neighborhood deterioration that vacancies often spur.[1]

Foreclosures in Massachusetts as a whole declined nearly 35 percent from August 2008 to August 2009. But the crisis continues in specific neighborhoods, and as of September 2009, there were 19,108 petitions to foreclose, a 31.6 percent increase from 2008.[2] The foreclosures are concentrated in communities where residents earn less than 80 percent of the state median income.[3] And with continued market weakness and rising unemployment, their problems will not dissipate soon.

Meanwhile, there are evictions, which not only destabilize families and neighborhoods but place increased burdens on social safety nets.[4] But governments accustomed to providing those safety nets are experiencing reduced tax receipts, loss of prior neighborhood investment, and higher costs for arson and crime. Understandably, combating vacancy is critical.

Organizing Efforts

In early 2008, affordable housing professionals were concerned that the Commonwealth's vulnerable communities risked losing 30 years' worth of revitalization improvements. They also perceived that a lack of knowledge, resources, and policy responses was making matters worse. So Citizens' Housing and Planning Association (CHAPA), a statewide housing advocacy group, organized a Foreclosed Properties Task Force to help local entities with neighborhood-stabilization strategies and the sound disposition of at-risk properties.[5]

Several members focused on finding out who was tracking tenants moving from home to family couch to homeless shelter—or out of state—and what efforts were already afoot to keep tenants from eviction. Out of that research emerged a group of housing, organizing, and financing professionals determined to protect the rights of occupants to remain in homes and to maximize home affordability and community stability long-term. The group, Coalition for Occupied Homes in Foreclosure (COHiF), includes community-based advocacy organizations (for example, City Life/Vida Urbana, Boston Tenant Coalition), legal aid groups (Harvard Legal Aid Bureau, Greater Boston Legal Services), policy advocates (Massachusetts Law Reform Institute, the Center for Social Policy at the University of Massachusetts, Boston), developers (Archdiocese of Boston's Planning Office of Urban Affairs), and lenders such as Boston Community Capital (BCC). By keeping the focus on people, not properties, COHiF has catalyzed resources to create a win-win-win for families, lenders, and communities.

In summer 2008, BCC conducted professionally moderated focus groups with randomly selected homeowners undergoing foreclosure and began to formulate a possible approach. Just as the nonprofit was refining the concept, a focus group participant, having tried everything to save her home, sought help. Here was an opportunity to test a theory about buying loans or properties from lenders and working things out with the resident.

The case presented challenges, including the need to work with a second mortgage holder. Months of negotiating—and demonstrating to the lenders why they would be better off working with BCC than keeping nonperforming loans on their books—led to getting both mortgages paid off at significantly reduced levels. That single case produced valuable insight into the importance of determining the true market value of distressed properties and how to approach lenders. As BCC has become more experienced, new cases have been resolved faster and have demonstrated the benefits of having a reasonable and responsible lending partner to help smooth the process of taking a client from foreclosure to repurchasing the home with appropriate financing.

The decline in real estate prices in low-income areas has made it possible for BCC to purchase foreclosed properties from first- and second-mortgage lenders at prices at present value or below, a steep discount (often 40 percent to 50 percent) from the outstanding principal. It is then possible to resell those same homes (with mortgage financing) to their existing occupants—owners and tenants—at prices they can afford.

Keeping properties occupied is the most effective method to stabilize values and maintain security in communities.

Keeping People in Homes

Early on, BCC helped a family struggling with both a predatory loan and the death of a spouse. Wells Fargo Home Mortgage had foreclosed, but through the efforts of City Life/Vida Urbana and Greater Boston Legal Services, the family fought eviction for months. Finally the clock ran out, and Boston Community Capital was contacted. Late on the Wednesday before Thanksgiving, BCC told a Wells Fargo lender the family's story and asked him to consider BCC's offer to purchase the property. Three senior executives later, a call came indicating that Wells was willing to stop the eviction and work with the nonprofit.

The next step was establishing the home's market value and carefully underwriting the family's ability to support a 30-year fixed-rate mortgage. A right-sized mortgage at a fixed rate worked for both the family and Wells Fargo, which received a market price for an asset that had been on the books as a nonperforming, nonpaying loan for more than six months.

Keeping properties occupied is the most effective method to stabilize values and maintain security in communities. In one study, cost-benefit analysis showed that California banks could collect more than $1 billion annually if tenants were allowed to remain in and pay rent in foreclosed properties.[6]

In Massachusetts, according to estimates by Massachusetts Law Reform Institute attorney Judith Liben and independent research consultant Tim Davis, permitting rent-paying tenants and former owner-occupants who comply with basic tenancy obligations (timely rent payment, only normal wear and tear, no bothersome behavior or noise) to remain in their homes until sale would result in $86 million to $102 million annually for banks. It would also save taxpayers the costs associated with increased police and fire protection and overcrowded homeless shelters.


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What started with one family has grown to include displacement prevention for more than 40 additional families and financing to purchase over 20 foreclosed units in Greater Boston—a great complement to the state's neighborhood-stabilization efforts, which focus on vacant homes.

In addition to the price declines that have enabled BCC to purchase foreclosed properties, several other factors have been critical:

- relationships with community partners who are both a source of potential borrowers for BCC's community development lending and screeners of potential borrowers;
- new mortgage loan instruments that explicitly meet the stated needs of low-income people;
- fully underwritten, 30-year mortgages with a fixed payment—including principal, interest, taxes, and insurance—equal to no more than 38 percent of household income;
- selling primarily to existing occupants whose knowledge of actual operating costs reduces the likelihood of unduly optimistic estimates; and
- building a portfolio-level reserve against future loan losses and market decline.

Eyes on Success

It is important to recognize that reducing borrower debt may cause anger among neighbors who are managing to make full mortgage payments. It even could encourage owners not in foreclosure to default, a phenomenon called "moral hazard." To address potential moral hazard, BCC includes a zero percent, zero amortizing, shared-appreciation second mortgage, which limits the eventual appreciation to a fraction of what the borrower might otherwise earn. Also, applicants are screened not only for income eligibility, but also to rule out defaulted owners who have had neither an adverse life event (loss of income, illness, emergency expenses, death in the family) nor a predatory loan.

Finally, low-income borrowers are more likely to succeed in paying a mortgage on time and over time if they have the following: fixed-rate, properly underwritten mortgages that ensure a manageable, predictable monthly payment; automatic deposit of paychecks and automatic withdrawal of mortgage payments (timed to be coincident with payday, generally biweekly); assistance with budgeting; up-front reserves to help manage the lack of a financial cushion and to cover unexpected events; and education about the real costs of mortgage finance and of owning and maintaining a home.

With foreclosures continuing to take a toll on low-income communities, ripple effects are being felt by more than the individual homeowners. Clearly, the decline of neighborhoods must be interrupted as early as possible. Through collaboration and innovative, sound financing, Massachusetts is developing a unique tool that can turn the tide.

Becky Regan *is chief operating officer with Boston Community Capital, a 25-year-old community development financial institution with a focus on lending in low-income communities.*

Endnotes

[1] Boston Community Capital, a nationwide community development financial institution, is currently focusing its foreclosure work on Massachusetts, but the model is replicable elsewhere.

[2] See http://www.thewarrengroup.com/portal/Solutions/PressReleases/tabid/190/newsid751/2337/Default.aspx.

[3] See http://www.chapa.org/?q=foreclosure_view_details/22.

[4] Dan Immergluck and Geoff Smith, "The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values," *Housing Policy Debate* 17, no. 1 (Washington, DC: Fannie Mae Foundation, 2006): 57-79.

[5] In Massachusetts, the foreclosure process often takes more than 300 days. Depending on the servicer, eviction can occur after foreclosure, before foreclosure, or before *petition to foreclose* ("cash for keys"). Most servicers like to get people out of units because they fear the greater liability of becoming, in essence, landlords.

[6] Ari Levy and Dan Levy, "California Foreclosures Jeopardize Renters as Banks Seize Homes," Bloomberg.com, April 6, 2009.

Numbers of Employed Black Males by Age*

(1,000s, not seasonally adjusted)

Age group	Sep/ Nov 2007	Feb/ Apr 2009	Absolute change	Percent change
16 – 19	238	189	-49	-21%
20 – 24	821	698	-123	-15%
25 – 34	1,866	1,590	-276	-15%
35 – 44	1,922	1,667	-255	-13%
45 – 54	1,731	1,608	-123	-7%
55 – 64	736	814	78	+10%
65+	220	211	-9	-4%

Source: CPS monthly surveys, selected months 2007-2009, from BLS web site. Tabulations by authors.

Corrected table from Andrew Sum et al, "The Recession's Effect on African American Males," *Communities & Banking,* Winter 2010.

by Jim Flint,

Friends of Burlington Gardens

Vertical Cultivates Community through GARDENING

Hartland Community Garden, started in Hartland, Vermont, in 2009. Photograph: Jim Flint

The ideal of public green space is deeply rooted in local agriculture. With the village greens of Europe in mind, New England colonists created town commons to provide community land for pasturing farm animals. But as manufacturing and retail expanded in villages and cities through the 19th and 20th centuries, food production moved to the outskirts of populated areas, save for the brief Victory Garden period of 1942-1945.

Post-World War II, economic priorities shifted to meet the needs of veterans and their burgeoning families. Small farms and market gardens gave way to tract homes and shopping centers, while interstate highways and refrigerated trucks allowed produce to be delivered to supermarket shelves and freezers nationwide. As commuting distances and work hours increased, processed convenience foods were marketed for modern households too busy to prepare meals from scratch.

The late 1960s and early 1970s back-to-the-land movement captivated a generation disillusioned with the Vietnam War. Young adults casting off materialism were drawn to homesteading and self-sufficiency through publications such as *Mother Earth News* and *Organic Gardening*. Lyman Wood, founder of the Garden Way Company, based in Troy, New York, recognized the trend and in 1971 began planning a national "Gardens for All" initiative. From his Charlotte, Vermont, division he worked with staffers to organize a model nonprofit community garden program in Burlington.

Getting Started

In January 1973, Wood hired Tommy Thompson, a World War II veteran and retired restaurant owner from Ascutney, Vermont, to serve as Gardens for All director. Thompson appealed to public and private land owners to host community garden sites, recruited neighborhood volunteers for leadership roles, and garnered financial support from local businesses. According to *Vermont Life Magazine*, 10 new community gardens serving 540 households were operational in Burlington in summer 1973. By spring 1974, Gardens for All listed 23.

Thompson looked at the economic challenges of the 1970s—high inflation, rising food and energy costs, unemployment—and saw gardening as a cost-effective way to accomplish several desirable outcomes. As he wrote in "A Proposal for a 'Gardens for All' Program in the Greater Burlington Area" in 1973, community gardens could bring together "the elderly and the young, the underprivileged and the privileged, the employed and unemployed, the land owner and the apartment dweller, the able and disabled, and the experienced and inexperienced gardener."

In 1975, Gardens for All, partnering with University of Vermont Extension on statewide expansion, recruited volunteer site coordinators to oversee new gardens to serve low-income residents. UVM Extension developed a Master Gardener program to provide home and community gardeners with information to successfully grow nutritious vegetables. Sponsors for sites included churches, parks and recreation departments, businesses, civic clubs, colleges, social service agencies, food coops, and utilities.

Although the 1975 Project Vermont Gardens Interim Report noted that 69 new community gardens resulted, not all survived. Individual gardeners often lacked the group-organizing skills needed. As energy prices declined during the Reagan administration, and industrial agriculture expanded, many low- to moderate-income Vermonters began to regard vegetable gardening as less economically feasible.

By 1992, six community gardens remained Burlington, with fewer than 200 plots. Nevertheless, as the city became more densely developed, residents began to call for conservation, and city officials worked with grassroots community garden organizers to establish new sites. One was Starr Farm Community Garden, founded in 1993 on a two-acre parcel of city-owned pasture overlooking Lake Champlain.

A City of Community Gardens

Today the grassroots spirit has experienced a renewal in Burlington, which maintains the largest community garden system in northern New England. The city-sponsored Burlington Area Community Gardens (BACG) program, administered by Burlington Parks and Recreation since 1987, now oversees more than 400 plots at 11 different sites. The sizes range from the 2,500-square-foot Myrtle Street Avant Community Garden in Burlington's Old North End to the five-acre Tommy Thompson Community Garden in the Intervale area along the Winooski River.

Melissa Farr, a student in the Community Teaching Garden program at the Ethan Allen Homestead, Burlington, Vermont. Photograph: Jim Flint

Collectively, the BACG sites provide 1,600 of Burlington's 40,000 residents with opportunities to grow fresh, organic vegetables. Gardeners pay an annual registration fee based on plot size and household income. Through a scholarship fund supported by donations from fellow gardeners, limited-income households can apply for assistance to cover up to half of the fee. A Parks and Recreation sponsored "gardenteering" program matches new gardeners with veteran gardeners.

The Community Teaching Garden at Ethan Allen Homestead, directed by Friends of Burlington Gardens (FBG), provides up to 30 beginning gardeners with classes throughout the five-month growing season. A gardener tending a 625-foot-square plot can produce an estimated $600 to $1,000 of organic produce each year. Gardeners are encouraged to donate their surplus to the Chittenden Emergency Food Shelf to help others.

Technical Assistance

Friends of Burlington Gardens got organized in 2001 to support community-based gardening throughout Vermont. Aided by New England Grassroots Environment Fund and The Windham Foundation, FBG branched out in 2006 to found the Vermont Community Garden Network (VCGN). Through subsequent funding from The Bay and Paul Foundations, Ben & Jerry's Foundation, Vermont Community Foundation, and Blittersdorf Foundation, FBG has awarded $50,000 in mini grants during the past three years for infrastructure improvements at 160 community, school, and neighborhood gardens.

As the recent economic downturn and environmental concerns inspire more people to grow food, requests for technical assistance and help in building sustainability have risen dramatically. Friends of Burlington Gardens has refocused its efforts on encouraging the development of school-based community gardens and larger community garden sites. Planned by local steering committees, the gardens provide space for hands-on educational programs that meet the social and developmental needs of underserved groups, including at-risk youths, seniors, and recent immigrants.

VCGN grant programs bring gardeners together to make infrastructure improvements, including water systems, fencing, signage, tool sheds, bulletin boards, topsoil, and compost. Growth in VCGN membership (750 members as of October 2009) has facilitated internal mentoring through member participation in statewide and national community and youth garden conferences. Through FBG scholarship assistance, six emerging community garden leaders in Vermont attended the 2007 annual conference of the American Community Gardening Association, touring Boston's community gardens and networking with fellow organizers from across the United States and Canada.

The innate desire for "a place to grow" is evidenced at housing projects, in youth centers, and in neighborhood parks and greenbelts. Garden projects small and large offer diverse constituencies opportunities to work side-by-side, building mutual trust and community. In Burlington's Old North End, the group Grow Team ONE established a culturally diverse community garden in 2007 on a vacant lot. The 7,500-square-foot Archibald Neighborhood Garden, formerly occupied by a used car dealership, was restored to green space by the Visiting Nurse Association, which leases the lot to Grow Team ONE for $1 a year. The site's raised bed gardens provide productive green space that has led to healthier lifestyles, a decreased reliance on fossil fuels, and a sense of interdependence.

Community garden sustainability relies on identifying and supporting leaders who value the land, agriculture, and collaboration, so the Friends of Burlington Gardens technical assistance program to develop volunteer leadership capacity has been especially valuable.

Working in the Community Teaching Garden at the Ethan Allen Homestead. Photograph: Jim Flint

A Movement Grows

During the 10 years that Thompson catalyzed the community garden movement, he was keenly aware that contemporary pressures and conveniences drew people away from the land and the sense of community that enabled knowledge to be passed to the next generation. He believed that the secret to sustaining community gardens lay in education and youth gardening.

The same holds true for refugees from farming backgrounds. In Burlington, recent immigrants from Somalia, the Congo, and Bhutan have found their way back to agriculture through education programs such as the Visiting Nurse Association's Family Room Garden, which serves dozens of immigrant families with young children. In Montpelier, the North Branch Community Garden, expanding from 20 to 60 plots in 2008, provides garden space for a group of Russian-speaking Turkish immigrants.

In 1977 testimony before Congress, Thompson said: "Whenever a governor or mayor endorses a community garden program and offers some financial and material assistance, there is an enthusiastic move by community members to raise their own food; there is also the social change of the people themselves, the involvement of children, and the sense of pride among the community."

Although the fast-paced 1980s and 1990s saw consumption of processed convenience foods increase and many home and community gardens lie fallow, Vermonters of the current decade are once more working together through community and school gardening to restore the ability of residents to produce locally grown food.

Jim Flint *is founder and executive director of Friends of Burlington Gardens, www.burlingtongardens.org, and the Vermont Community Garden Network.*

by Matt Martin and Zachariah Starnik,
Stockyard Redevelopment Organization

Preventing Urban Decay with Gardens

Getty Images

The residents of West 48th Street in Cleveland's Stockyard neighborhood had a problem. A glut of vacant land and empty houses had formed an unsafe and unattractive landscape. In a pattern repeated around the city, vacant properties had become a magnet for dumping, vandalism, and other illegal activities. "It's what happens with these inner city properties," laments Art Ledger, a resident and the owner of Art's Taxidermy. "People just give up on them."

The story of West 48th Street, especially the residents' bold decision regarding two conflicting risks, may hold lessons for other neighborhoods that people are tempted to give up on.

Upheaval in Cleveland

The effects of industrial decline and foreclosure are ubiquitous in Cleveland. They are felt particularly acutely in the Stockyard neighborhood, where nearly 400 homes in a 2-square-mile area sit vacant and 300 empty lots await new use. The numbers represent 13 percent of residential parcels and guarantee an empty house on every block.

First developed in the 1890s, the area grew quickly with the success of the Cleveland Union Stockyards Company and the founding of several local breweries. Thousands of workers' cottages like the ones that populate West 48th Street were built for the immigrants who flooded the area seeking employment. But industry peaked in the 1940s. By 1968 the Stockyards had closed, and the neighborhood was left without its largest employer. The decline in employment precipitated a decline in demand for—and quality of—housing.

The recent foreclosure crisis wreaked further havoc on Stockyard's already fragile housing market, pushing properties to the edge of the modest economic plateau they previously occupied. Eventually, many properties were simply abandoned by the individuals or financial institutions that owned them. Nearly all were vandalized by thieves seeking copper and aluminum for sale to the scrap dealers that had come to occupy the former Stockyard processing plants. Literally and figuratively stripped of worth, abandoned, and neglected, the houses in Stockyard become unsalvageable.

Addressing Vacant Land

In Cleveland, if the neighbors are lucky, a house is torn down by the city and the street is relieved of an eyesore. However, the path to demolition involves tortuous legal maneuvers that may take years. First, potentially correctable health and building code violations are cited, and an attempt is made to issue the citations to the owner. Often the attempts to bring the owner into housing court are unsuccessful. Then the city will take on such tasks as cutting grass and boarding windows, simultaneously sending the owner a bill for services provided. After continued neglect by the owner and a hefty tax bill, the city will begin preparations for condemnation and eventual demolition. If the tax burden on the now empty parcel exceeds the value of that property, the parcel may be claimed by the city's Land Bank, a receptacle for neglected lots that revert to city ownership.

In certain areas of the city, Land Bank lots and other vacant lots have been useful tools in the production of market-rate housing. The city may grant vacant land to community development corporations or sell it to them cheaply. The CDCs then work with developers to produce new homes. Through much of the 1990s and the early part of this decade, that was Cleveland's chief means of housing production in neighborhoods where demand was strong. And to a large extent, the process worked.

However, for the Stockyard Redevelopment Organization (SRO), the approach proved ineffective. It is challenging to produce and sell new housing in a neighborhood where the median sales price for a single-family home was $13,334 in 2008. In fact, there were homes in Stockyard selling for $1,500 as recently as summer 2009. The neighborhood faced an increasing supply of empty parcels and no viable plans for redevelopment. With such circumstances in mind, the SRO leaders and the community decided new strategies and tactics were needed.

In 2007 they undertook an effort to update the Stockyard neighborhood plan. Included in the plan were land-reutilization recommendations compiled with the assistance of Kent State University's Urban Design Center. Options included decreasing neighborhood density by combining vacant properties with adjacent occupied parcels; creating pocket-parks within the fabric of the neighborhood; and creating community garden space, where local residents could grow produce for their households. It was up to the community and SRO to experiment with and implement the ideas.

Doing a Lot with a Little

In August 2008, Ledger and his wife, Kathy Oberst, rallied the neighborhood around the issue of vacant properties. With help from SRO, they formed the West 48th Street Block Club. The club's mission was to counteract the negative influences of vacant houses and to utilize the empty lots. The group quickly grew in size and momentum and, by coordinating more efficiently with local government, was able to have many of the most troublesome vacant structures brought down. However, demolition created more empty lots and a greater urgency to utilize the land and prevent properties from becoming a further detriment to the community.

Through a series of Block Club meetings and consultation with SRO staff, the club decided that creating vegetable gardens would serve the neighborhood best. However, few of the vacant parcels on West 48th were city-owned Land Bank lots, eligible for funds and program support. Most were still enmeshed in a legal maze involving the private owners. Residents faced the prospect of having to wait years before these lots could be utilized.

Having already waited a long time for the derelict houses to come down, Block Club members were now watching the lots sit neglected and become sites for illegal dumping and other criminal activity. The members had no intention of sitting still while the city caught up on its paperwork. Unable to obtain permission or to be denied it, members of the Block Club and SRO staffers decided to go ahead with gardening projects.[1] Gardening on what was technically private property was risky, but allowing the lots to sit empty seemed riskier. Doing nothing was not a viable option.

The Block Club gathered its own resources and started to assign plots to individual residents. Having decided to assist the gardeners, SRO provided staff time and supplied tools and the use of court-assigned community service workers. Eventually the residents of West 48th Street were able to begin four gardens on private vacant land.[2] An additional garden was started on two city Land Bank lots.

Once overgrown and strewn with trash, this abandoned lot is now a community gathering space. Photograph: Stockyard Redevelopment Organization.

The plan garnered wide community support. As ward councilman Joseph Santiago said, "I think it's a great idea. It reduces maintenance costs for the city and provides food for residents."

The gardens have had a visible effect on West 48th Street. Reutilization of the lots has improved their appearance and removed a number of former safety risks. The lots have become not only a valuable food resource but also a wellspring of pride. They have united the neighborhood in a single cause, becoming a visible symbol of the neighborhood's collective power. "We've done a lot with a little," says one club member.

"It's Progress"

The method employed by the West 48th Street Block Club is not the only model that has been utilized in the Stockyard neighborhood, nor the only one that has worked. A short list of other successes includes gardens that have been placed on city Land Bank parcels with grants and other financial assistance; a collaborative effort between SRO and the Ohio State University Extension to conduct *phyto-remediation* (using different types of plant life to cleanse soil) on lots with soil contamination; and a plan that calls for a neglected urban street and adjacent vacant parcels to be developed into a viable green space and corridor. The activities of the West 48th Street Block Club stand out from these other plans, however, because members realized that they had to decide which risk was bigger and then knowingly make use of abandoned private land.

While no one would claim that merely planting gardens will save a neighborhood, in an area hit by multiple foreclosures every little bit helps. As Art Ledger says, "It's progress. You're going to have things that go backwards, too. But we're ready."

Matt Martin *is a vacant properties manager and* **Zachariah Starnik** *is a neighborhood service provider at Stockyard Redevelopment Organization in Cleveland, Ohio.*

Endnotes

[1] We made sure that the lots were in fact abandoned to the point of being essentially without owners. In each case we sent several letters to the name and address listed and never heard back.

[2] The lots will most likely never revert to private ownership. The tax delinquencies far exceed their value and most are nonbuildable under modern housing code. They will eventually be taken by the city in exchange for the back taxes. After that, gardeners could be granted permission to garden, but that process can easily take two years.

by Sara Jade Pesek,
Environmental Finance Center, Syracuse University

Training for Green Jobs

The 2009 American Recovery and Reinvestment Act (ARRA) provided funding for "green" jobs training programs. Many communities are interested in participating but do not know where to begin. Recent interviews with people who have actually developed and implemented such programs may be instructive.[1]

Introduction to Green Jobs

There is no standard definition of a green job. In general, such jobs and industries are associated with reductions in carbon emissions, energy usage, environmental impacts, or a combination of the three. The specific definition of a green job is usually dependent on local priorities and a program's sponsor. For example, the ARRA defines green jobs as careers in energy efficiency and renewable energy industries, home weatherization, and green construction.

Nearly all green jobs training programs operate in partnerships, as few individual organizations have expertise and capacity in all necessary program components: recruitment, training, social needs of disadvantaged trainees, and job placement. Partnerships increase capacity, enable sharing of resources, and help groups with shared goals to coordinate activities. They allow for organizations to focus on their strengths, producing a high-quality program and making the coalition more competitive when applying for grants.

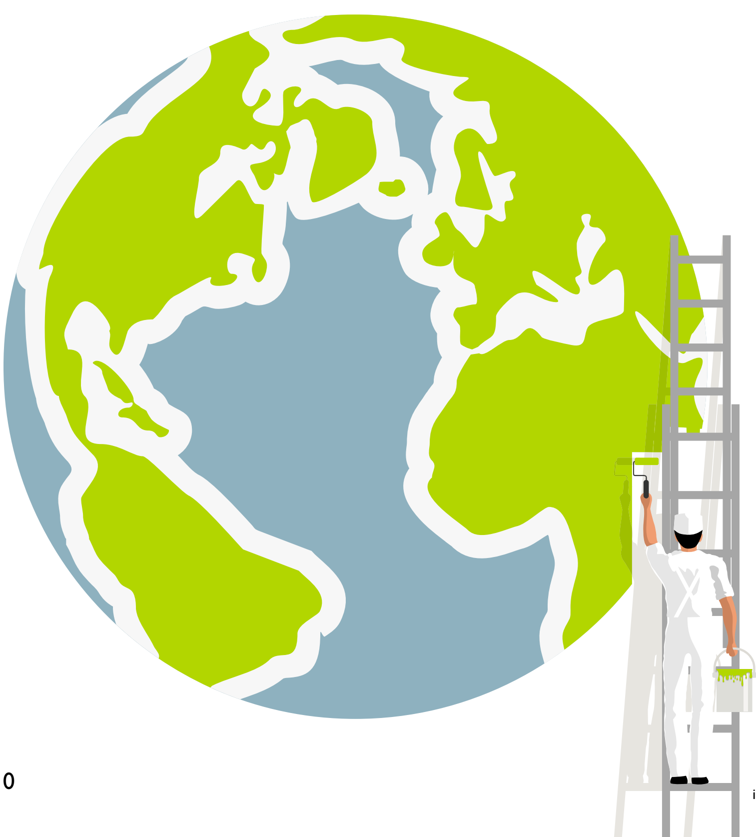
"For every program, realize what you have and what you need to bring partners in for." That is the advice of Aaron Durnbaugh, project manager for Greencorps, Chicago's community landscaping and job training program. "Organizations that try to figure it out themselves can end up banging their head against the wall."

Partnership Development

One of the key elements in building partnerships is creating performance measures. This helps focus the group's priorities and improves accountability. Reaching a consensus before making major decisions prevents instability. Another best practice is formalizing the partnership with a memorandum of understanding (MOU). Organizations that have formalized their relationship strongly recommend it because it takes assumptions out of the partnership. Organizations can also amend agreements to include new priorities and expectations discovered during the program cycle.

Many green jobs training programs face unique implementation challenges because of an emphasis on lifting disadvantaged populations out of poverty through skills training. Some trainees need help overcoming barriers to employment, such as access to child care, transportation, or required equipment. These barriers can prevent trainees from maintaining employment, and must be addressed during training and before job placement. Partnering with social service agencies and local nonprofits that work with disadvantaged populations mitigates the challenges. Such partners can provide referrals, lend legitimacy to job training, and teach soft skills to assist each trainee in becoming a well-rounded job candidate.

Mindy Feldbaum, director of workforce development programs at Washington, DC-based Academy for Educational Development and a former program manager at the Department of Labor's Employment and Training Administration, emphasizes the importance of social support services and soft-skills training. "Without housing or transportation it can become impossible to keep a job," says Feldbaum. She contends that a good job training program, green or not, must not only ensure that trainees have the right skills and competencies, but must also invest in the case management services that will keep those trainees employed. "It is one thing to get a job and another to sustain it."



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Engaging the Business Community

Another important first step in implementing a green jobs training program is to develop a network of businesses that will hire trainees when they have completed their training. In order to build relationships with employers, many programs tailor training specifically to the needs of the employers in their communities. For example, Greencorps Chicago connects with human resource officers at area businesses to evaluate workforce needs. The type and level of training varies, depending on the environmental needs in a given community, and may change over time.

It is recommended that a program not only tailor training to the business community's needs, but also engage businesses in curriculum development. For instance, the Wisconsin Regional Training Partnership consults with local businesses on curriculum development, then gives them a few different trainees to choose from at the conclusion of their program. Portland, Oregon's Construction Apprentice and Workforce Solutions uses a similar model. They identify the community's largest contractors, then place them on an advisory board that recommends curriculum improvements.

Some employers may need employees who are certified for highly skilled, technical jobs, such as electrical work on photovoltaic installations. Training the disadvantaged population, many of whom may not have a general equivalency diploma (GED), to such high skill levels is an intensive process that can take years. When employers do need these highly skilled workers, partnerships with unions are recommended. Unions offer long-term training programs to members, and they start training workers at the preapprenticeship level and move them to full certification. A preapprenticeship program with case management and soft-skills training can bring novices to the level needed to join a union apprenticeship program.

Skill Development

The needs of the community can vary dramatically from one project to another, and a green jobs training program must be prepared to keep its trainees adaptable and relevant. The programs should focus on providing integrated support services for trainees and structured follow-up assistance.

There are two different types of training that many green jobs training programs use, and they require different trainer skill sets. First, there is technical training, which is the professional training that may lead to certification and will give trainees the specific skills needed to work in the field. For example, a photovoltaic installation training program would likely include basic electrician training and certification, followed by training sessions specifically tailored to give trainees the knowledge and skills associated with photovoltaic technology. Altogether, these sessions usually account for two-thirds of training time. Many of these trainers should be part-time and practitioners in the area they teach.

Next, there are the soft-skills training components. This training should include instruction on workplace behavior, career planning, and interviewing skills. These career skills usually comprise about one-third of training time, but that varies depending on the individual's previous experience. Trainers who focus on soft-skill development should be full-time, as their expertise is applicable to most trainees. Some organizations have had success in developing soft skills by hiring trainers who are ex-military members or coaches. It may also be useful to hire staff with backgrounds in social work, so they can integrate the training with social services.

There is significant variation in how training classes are structured. The length of training programs is usually 12 to 16 weeks and varies depending on the skills taught. The student-teacher ratio also may vary, depending on the context and the trainees' needs. For example, Greencorps Chicago's trainer-to-trainee ratio averages 1 to 5 when training in the field, but 1 to 30 in the classroom. Another area of variation is the cost associated with training. Some organizations charge money, while some offer free training. Sustainable South Bronx is one group that believes there is value for disadvantaged trainees to treat the program as a full-time job. It therefore provides a stipend and holds trainings from 9 a.m. to 5 p.m.

Evaluation

After training is complete and the trainee has been placed in a job, interim check-ins and long-term evaluations are necessary to evaluate the success of the placement. If there are unsuccessful placements, an employer's willingness to hire future trainees could be substantially reduced. The reputation of a training program is inherently tied to the workplace success of its graduates, and opinions about graduates, positive or negative, will spread throughout the local business community. In addition, tracking graduates provides a program with the ability to make modifications. For example, if trainees are not maintaining employment and receiving promotions, then perhaps the training curriculum needs to be altered.

These recommendations for structuring some of the key features of a green jobs training program are based on experience. Given that there is political support from the current administration for green jobs—and funding for job training programs in general—it behooves communities to learn from best practices and target that support effectively.

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Endnote

1 See "The GreenPrint for Success: A 'How-To' Guide for Building a Green Jobs Training Program," http://cepa.maxwell.syr.edu/pages/178.html, which is based on interviews Maxwell School students conducted at more than 30 organizations. The interviewees were green jobs experts from public, private, and nonprofit sectors, as well as representatives from labor unions and educational institutions. The programs were at different stages of development and were geographically diverse across the United States. The report goes into detail on assessing need, establishing partnerships, and evaluating and implementing programs. There is also a downloadable budget template, sample budgets, a memorandum of understanding template, sample MOUs, and a checklist for the major steps of planning and running the program.

by Paul Willen, Federal Reserve Bank of Boston

WHY Few Lenders Are Modifiying Loans

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Many commentators have attributed the severity of the foreclosure crisis in the United States in 2007 to 2009 to the unwillingness of lenders to renegotiate mortgages. As a consequence, they have placed renegotiation at the heart of the policy debate.[1] Every major policy action to date has involved encouraging lenders to renegotiate loan terms in order to reduce borrower debt loads.

According to the Treasury-sponsored HopeNow initiative, in December 2007 lenders were expected to prevent adjustable-rate mortgages from increasing to higher rates at the first reset of the mortgage. Then Hope for Homeowners, enacted by Congress in July 2008, expected lenders to write off a substantial portion of the principal balance of mortgages for financially distressed households. Finally, the Obama administration's Making Home Affordable Plan, announced in February 2009, expected that the plan's financial incentives to servicers would get loans renegotiated with a reduced interest rate for a significant period.

The Appeal of Renegotiation

The appeal of renegotiation to policymakers is simple. If a lender makes a concession to a borrower by, for example, reducing the principal balance on the loan, that can prevent a foreclosure. This is clearly a good outcome for the borrower, and possibly good for society as well. But equally important to policymakers is the belief that it can also benefit the lender. The lender loses money only if the reduction in the value of the loan exceeds the loss the lender would sustain in a foreclosure. In short, according to proponents, renegotiation of home mortgages is a type of public policy Holy Grail, in that it helps both borrowers and lenders at little or no cost to the government.

One message is quite clear: lenders rarely modify loans.

To evaluate this argument, Federal Reserve economists analyzed data from 2005 to first-quarter 2009, considered borrowers over the year subsequent to their first serious delinquency (defined as two or more missed mortgage payments), and counted the frequency of modifications. The results are instructive.

One definition of renegotiation that was explored is *concessionary modification*, which reduces a borrower's monthly payment. Concessionary modifications may entail reductions in the principal balance or interest rate, extensions of the repayment period, or a combination. This definition of renegotiation was a key focus of the analysis because of the consensus among many market observers that concessionary modifications are the most, or possibly the only, effective way of preventing foreclosures.

Next the definition of renegotiation was broadened to include any modification, regardless of whether it lowers the borrower's payment. The common wisdom is that modifications always involve concessions to the borrower, but many—and in some subsets, most—modifications involve the capitalization of arrears into the balance of the loan, and thus lead to increased payments.

No matter which definition of renegotiation is used, one message is quite clear: lenders rarely modify loans. Fewer than 3 percent of the seriously delinquent borrowers in the sample received a concessionary modification in the year following the first serious delinquency. More borrowers received modifications under the broader definition, but the total still accounted for fewer than 8 percent of the seriously delinquent borrowers. The numbers are small both in absolute terms and relative to the problems these borrowers face. Lenders initiated foreclosure proceedings on more than half these loans and completed them on almost one-third.

Why Is Renegotiation Rare?

So why is renegotiation so rare? If the logic for Making Home Affordable is correct, lenders should find renegotiation attractive, even in the absence of government prodding. Yet the data show very little renegotiation.

The leading explanation holds that lenders are reluctant to renegotiate because the process of securitization, in which loans are bundled and sold off, muddies the waters. Loan pooling and servicing agreements sometimes place limits on the number of modifications a servicer can perform for a particular pool of mortgages. In addition, some have argued that the rules by which servicers are reimbursed for foreclosure expenses may provide a perverse incentive to foreclose rather than modify. Another issue is the possibility that those investors whose claims are adversely affected by modification will take legal action. Finally, the Securities and Exchange Commission (SEC) has historically held that contacting a borrower who is fewer than 60 days delinquent constitutes an ongoing relationship with the borrower and may change the status of the loan.

Some market observers express doubts about the renegotiation-limiting role of securitization, including J.P. Hunt, who conducted an exhaustive review of pooling and servicing agreements.[2] Although servicers have expressed concern about lawsuits, of the more than 800 lawsuits filed by investors in subprime mortgages through the end of 2008, not one questioned the right of a servicer to modify a loan. Even the Congressional Oversight Panel, which generally has viewed securitization as a problem, conceded in 2009 that the "specific dynamics of servicer incentives are not well understood." Finally, the SEC ruled in 2008 that if a default was "reasonably foreseeable," then contact with a borrower prior to 60-day delinquency would not affect the accounting status of the loan.

The empirical analysis provides strong evidence against the role of securitization in preventing renegotiation. Consider renegotiation rates for private-label (nonagency) securitized loans and for loans that are not securitized but held on the loan originator's balance sheet. For the narrowest definition of renegotiation (payment-reducing modification), the difference in the likelihood of renegotiation—in the 12 months after the first 60-day delinquency—between securitized and unsecuritized loans is statistically insignificant. For the broader definition, which includes any modification, the data even more strongly reject the role of securitization in preventing renegotiation.

What about subprime loans? Although they comprise only 7 percent of all mortgages, they account for more than 40 percent of serious delinquencies and almost 50 percent of the modifications. Strikingly, the results obtained for the subprime sample are consistent with the results for the full sample.

Risks to Lenders

The policy debate has focused exclusively on the ways securitization impedes renegotiation. It implicitly assumes that lenders who do not securitize, but rather hold the loans in their portfolios, face no institutional impediments. Portfolio lenders complain about having to identify modifications as "troubled debt restructurings" on their books, which leads to reduction of capital under accounting rules and increased scrutiny from investors. Also, the shortage of qualified staff, an oft-heard complaint from borrowers seeking renegotiation, affects servicers of portfolio loans and private-label loans equally.

Renegotiation exposes lenders to two types of risks that can dramatically increase costs.

So if securitization contract frictions are not a significant problem, then what is the explanation for lenders failing to renegotiate with delinquent borrowers more often? The proposed explanation is quite mundane: in the period studied, lenders expected to recover more from foreclosure than from a modified loan. That may seem surprising, given the large losses lenders typically incur in foreclosure, which include both the difference between the value of the loan and the collateral, and the substantial legal expenses.

But renegotiation exposes lenders to two types of risks that can dramatically increase costs. The first is a "self-cure" risk. Between 2005 and the first quarter of 2009, more than 30 percent of seriously delinquent borrowers cured their problem without receiving a modification within the first 12 months of becoming delinquent. Lenders might be assuming, therefore, that 30 percent of the money spent on a modification is wasted. The second risk comes from redefault. The data show that a large fraction of borrowers who receive modifications end up back in serious delinquency within six months. In that case, the lender has simply postponed foreclosure. In a world with rapidly falling house prices, the lender will now recover even less in foreclosure.

Proponents of mass modifications focus on the costs of foreclosure and the benefits of renegotiation and, in that context, the unwillingness of lenders to modify loans appears irrational. But redefault and self-cure risks make the problem far more complex. Measuring self-cure and redefault risks is also extremely difficult since one needs to assess counterfactual scenarios. To measure self-cure risk, for example, one has to assess what would have happened to borrowers who did receive a modification if they hadn't received it.

The implications for policy are threefold. First, "safe harbor" provisions, which shelter servicers from investor lawsuits, are unlikely to affect the number of modifications and should be little help. Second, and more broadly, the number of foreclosures that can be stopped without generating increased losses to investors may be smaller than many have argued. And third, to prevent foreclosures, policymakers need to provide financial assistance directly to borrowers so they can make their payments, or directly to investors to overcome the risks and make modification profitable. Making policy based on the assumption that everyone benefits from renegotiation will not work.

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Endnotes

[1] This article is based on Paul Willen, Manuel Adelino, and Kristopher S. Gerardi, "Why Don't Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization" (paper no. 09-4, Federal Reserve Bank of Boston Public Policy Discussion Paper Series, 2009).

[2] J.P. Hunt, "What do subprime securitization contracts actually say about loan modification?" (working paper, Berkeley Center for Law, Business and the Economy, 2009).

by Ethan Cohen-Cole,
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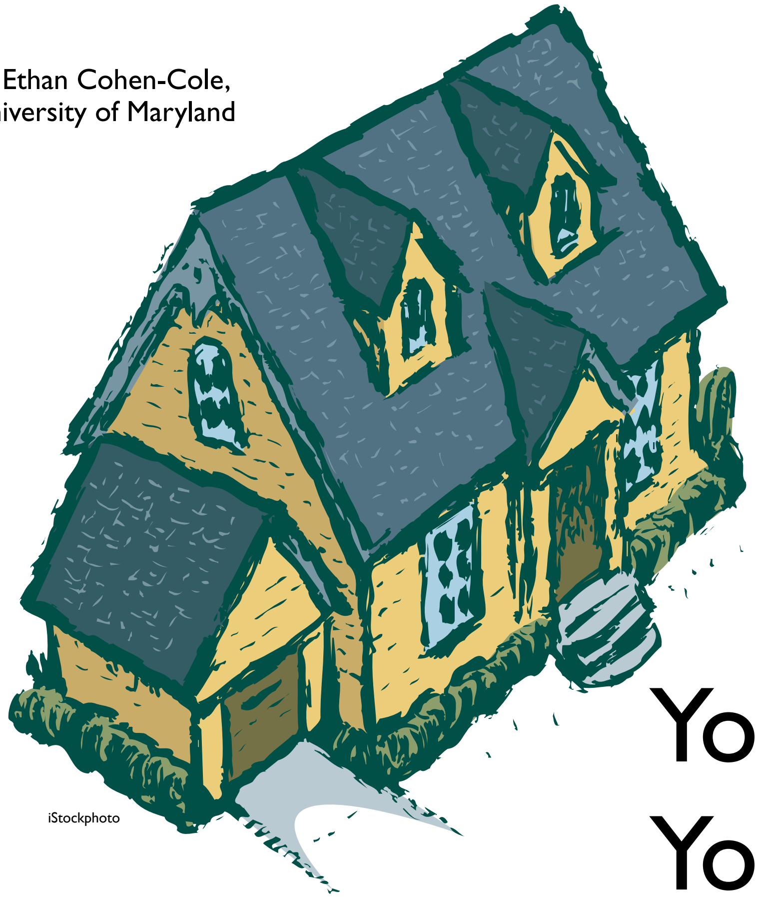

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Your House or Your Credit Card?

For years, the conventional wisdom in the finance industry has been that individuals will continue to pay their mortgage long after they have gone delinquent on other obligations.[1] After all, houses have not only financial and functional value, but also personal value. Nevertheless, evidence from recent research suggests that many individuals make a different choice: they pay credit card bills even at the cost of mortgage delinquencies and foreclosures.[2] That decision pattern has been generating attention during the foreclosure crisis.[3]

The decision is linked to the availability of liquid credit. Less available credit on a credit card makes it more likely people will perceive a need to protect the liquidity they have rather than pay the mortgage. Maintaining credit lines for liquidity purposes can be important if they face difficult financial circumstances. Having a credit card can enable them to pay for groceries, electric bills, gasoline, and other essentials.

A small drop in available credit on credit cards (one standard deviation) has been shown to correlate with an increase in mortgage delinquency of 13.1 percent. Between June 2006 and December 2007, the number of people choosing to pay on their credit cards and become delinquent on mortgages more than doubled—implying that many perceived an increased liquidity need during the run-up to the financial crisis. Clearly, consumer credit is important to people trying to manage economic uncertainty.

Two implications stand out. One, a line of credit on a credit card is a kind of security blanket. It appears ever more likely that individuals will keep credit cards functional to ensure that they can cover regular, nonhousing costs of living in bad times.[4] Two, the increase in foreclosures over the past two years is attributable in part to people's need for access to cash. If that is true, then mortgage-affordability programs will have to address a consumer's full range of liabilities in order to be successful. Many restructuring programs, however, look solely at people's ability to cover mortgage payments out of current income. What may be overlooked is that income could be high enough to pay a mortgage but not high enough to pay both a mortgage and nonhousing debts.[5]

The increase in foreclosures over the past two years is attributable in part to people's need for access to cash.

Thus, among the potential explanations for increased mortgage delinquency, access to cash plays a central and dominant role. Many individuals who default on their mortgage are capable of paying it, but their decision not to do so may be about more than the housing price changes that have received widespread blame as a primary cause of mortgage delinquency. The need for cash is often of greater importance.

This is a concern with serious ramifications. An individual's payment of a credit card bill at the expense of a mortgage payment may lead to foreclosure, causing the value of neighboring houses to decline—ultimately triggering additional delinquencies.

Stylized Patterns

Fact 1: *A large fraction of individuals choose delinquency on mortgages or credit cards, but not both.*

Fact 2: *A large fraction of that group choose delinquency on mortgages while continuing payment on credit cards.*

In fact, among mortgage-holding individuals in the dataset studied, a full 74 percent chose to become delinquent on housing but not on their credit cards. That statistic is remarkable partly because a large fraction of consumers facing economic hardship are making choices about which debt to cover. Current economic models of distress (principally bankruptcy) consider that what is most important is overall economic condition or a strategic run-up of unsecured debt prior to bankruptcy. However, the small scale of the average delinquency (less than $1,000) and the number of individuals in the sample suggest that what we are observing is not prebankruptcy behavior. Average consumers who chose their credit card over their mortgage had a household income of $50,000, a monthly mortgage of about $1,300, and monthly credit card obligations of about $600. They have about $10,000 in remaining balances on their credit cards. Such consumers probably choose to skip the mortgage knowing that, in the long run, they would be unable to support it. On average, once this decision has been made, the borrowers quickly accumulate a large delinquent mortgage balance.

Fact 3: *As delinquency rates have risen overall, the proportion of individuals choosing mortgage delinquency over credit cards has risen.*

Between June 2006 and December 2007 alone, delinquency and default rates increased for most groups. A notable change was the difference between credit card and mortgage delinquencies. Individuals who were mortgage delinquent but not credit card delinquent increased 127 percent during the 18-month period. Individuals who were credit card delinquent but not mortgage delinquent rose only 18 percent.

Fact 4: *Areas with large housing price declines showed stronger patterns of people trying to protect their credit cards.*

Three states that experienced high housing price increases and then declines—California, Nevada, and Florida—showed a huge increase in mortgage delinquency rates without corresponding increases in credit card delinquency. In fact, mortgage delinquency rates increased by 331 percent during the 18-month time period and credit card delinquencies by 97 percent. That asymmetric increase is consistent with *Wall Street Journal* reports that cardholders in those states—and in the states' distressed construction and finance industries—face increased scrutiny from card issuers.[6]

Preference for Cash

To isolate the decision to pay credit cards first, the research analysis looked exclusively at individuals who had no delinquencies in June 2006 and either a credit card or mortgage delinquency in December 2007. The thought was that one could then determine factors predicting that choice. The economic analysis found that two factors were dominant. The first, housing price changes, has been well studied. In severely affected states, short-term housing price changes—large drops in the value of homes—were a strong determinant of decisions related to mortgage delinquency. Elsewhere in the country, longer-term housing price changes mattered more.

The second factor is the availability of credit card lines. Individuals with lower lines are more likely to default on their mortgage. Individuals with higher credit availability have less need to protect the credit on their cards and are more willing to allow them to fall into delinquency. The low lines are essential to daily living during economic shocks and have to be protected. The twofold conclusion: the absolute level of available credit to individuals on the economic margin is essential in preventing mortgage defaults; minor changes in credit availability will have disproportionately large effects for such individuals.

Generally, individuals with credit constraints, including the young and those with low credit scores, are more likely than those without such constraints to protect their credit cards, even at the cost of a mortgage delinquency. The strongest effect is seen for those with the least available credit. Indeed, the young, people with low credit scores, low-income individuals, and minorities have the strongest propensity to protect liquidity and forgo housing payments. Given that such groups are those with the greatest need for alternate sources of liquidity, the result is unsurprising.

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When liquidity concerns lead to delinquency increases, systemic problems may result. The individual's decision to protect consumer credit instead of housing may have a negative impact on the surrounding community. Policymakers should be encouraged to understand the triage that mortgage holders conduct and investigate ways to reduce risks. Potential approaches might include liquidity insurance that a financial service provider or the government would offer borrowers. For example, a financial institution could offer a credit line bundled with a mortgage at the time of issuance—this could have ameliorated the liquidity crunch that borrowers faced during the recent crisis and also could have reduced foreclosures. Now that foreclosures are occurring, however, loan modifications should at a minimum address mortgage and consumer credit in tandem.

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Endnotes

1 See Ethan Cohen-Cole and Jonathan Morse, "Your House or Your Credit Card, Which Would You Choose? Personal Delinquency Tradeoffs and Precautionary Liquidity Motives," Federal Reserve Bank of Boston working paper QAU 09-05, http://www.bos.frb.org/bankinfo/qau/wp/2009/qau0905.htm.

2 See Luigi Guizo, Paola Sapienza, and Luigi Zingales, "Moral and Social Constraints to Strategic Default on Mortgages," National Bureau of Economic Research working paper 15145. The authors find that 26 percent of all individuals who default on their mortgage are capable of paying it.

3 Cohen-Cole and Morse find a strong liquidity preference even in areas that had not yet faced housing price declines in December 2007.

4 Transunion has found that consumers have become "more conscientious in protecting those credit instruments still available to them and are making every effort to pay their credit card bills on time," http://newsroom.transunion.com/index.php?s=43&item=516.

5 Note that a primary criterion for the Treasury's loan modification program is that payment on a first mortgage be more than 31 percent of gross income. See http://www.makinghomeaffordable.gov/modification_eligibility.html. That amount includes principal, interest, taxes, insurance, and dues, but does not include nonhousing debt.

6 Robin Sidel, "Card Issuers Get Personal to Check Credit," *The Wall Street Journal*, June 19, 2008.

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by Daryl Collins,
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Reimagining the Unbanked

Perspectives from South Africa

Attempts to broaden financial access in poor communities usually take one of two directions.[1] The first is providing credit to small-scale microenterprises, an idea pioneered by Bangladesh's Grameen Bank. The second involves fostering long-term saving for education, housing, or other worthy goals.[2]

But low-income families usually have a more fundamental financial need, one that families often pay dearly for: basic, reliable ways to manage cash flow.

The Importance of Cash Flow

When families lack ways to cope with the ups and downs of income and expenses, they may turn to predatory lenders or to friends and relatives with little of their own to spare. Basic cash-flow management is the foundation for families seeking to make the most of what they have.

We draw on evidence generated by *financial diaries* that detail the financial lives of 152 households in three low-income communities in South Africa.[3] The diaries tracked the households every other week between November 2003 and December 2004. The respondents did not keep a diary themselves. Instead, field researchers asked them detailed questions about their families' financial flows during the prior two weeks: did they take out a loan, deposit money into an account, take goods on credit?

Drawing lessons from South Africa for the United States might not at first appear reasonable, given that the latter is a much wealthier country, with a gross national product (GNP) per capita of $28,000, nearly three times South Africa's. Still, the wide income disparities in both countries mean that the lowest-income households in the United States have income and asset levels relatively similar to those covered in the South African diaries. On average, the diary households have an annual income of $12,400, measured on the basis of purchasing-power parity.[4] The 2004 *Survey of Consumer Finance* reports that the mean income for U.S. households below the 20th percentile is $10,800.[5]

There are certainly distinct conditions that affect South African low-income households, most centrally South Africa's pre-1994 legacy of apartheid and the post-1994 emphasis on black economic empowerment that continues to shape the economic landscape. Additionally, South Africa's official unemployment rate is about 30 percent. In contrast, the U.S. labor market is much tighter, and there is a large population of working poor. However, despite these differences, both U.S. and South African households have similarly low incomes and exist in the context of a sophisticated financial system that does not always adequately address their needs.

Households that Surprise

What we learned contradicts some common beliefs about low-income households and their financial management, showing that people do manage and save their money. We also found that the common insistence on lending geared only toward productive investment, such as microenterprise, misses much of what households need to support the realities of daily life.

Constant Financial Management

The households we studied were active financial managers. The assumption that low-income households lack financial lives gets the reality backward. Precisely because incomes are low, people devote considerable energy to strategizing about finances. In the South African sample, households used an average of 17 different financial instruments over the year in their financial portfolios. They juggled financial relationships with banks, other financial institutions, and with friends and family. All mechanisms, taken together, are needed to provide the kinds of reliability, flexibility, and discipline that households demand.

Consider Sylvia, a disciplined 39-year-old woman living in a shack in Diepsloot, outside of Johannesburg. She earns about $370 per month as a housecleaner for two separate clients.[6] Her income puts her at about the average for her community. Every month she has her employers put her pay into two different bank accounts. One she uses for all her expenses; the other she tries not to touch. Keeping two accounts entails extra bank fees, but it gives her a mechanism with which to save half her salary every month—a mechanism in keeping with the notion of "mental accounts" prominent in behavioral economics.[7] Sylvia also contributes to a formal college savings plan for her daughter and to five informal savings clubs organized by neighbors, a financial device common across the developing world.[8] She is not without debt: over the course of the year, she worked to pay off two credit cards she had used the past Christmas. Like all the respondents in our study, Sylvia manages a portfolio of financial activities, borrowing and saving with a diversity of financial instruments. She is, however, one of the better money managers—more than doubling her financial net worth over the year.

Active Saving

A low income does not mean lack of aspirations. The South African households had financial goals similar to ones seen in better-off households, particularly with regard to acquiring a home and paying for events like weddings, funerals, and holiday celebrations. On average across households, 26 percent of monthly income went into savings instruments—primarily bank accounts and informal savings clubs—to attain those goals. However, because incomes were small (an average of $1,040 per month, converted at purchasing-power parity rates), savings represented a small absolute amount of $270 per month. More important, these small amounts were usually not given an opportunity to accumulate for more than one year before being diverted to short-term needs or unexpected events, the implication being that it is harder to accumulate money for the long term.

When unexpected events did hit, households augmented savings with funds from a variety of sources, none of which were cost-free. They borrowed at informal rates of 30 percent per month. Assets sold in emergencies hampered income generation and financial protection later on, and help from family and friends was not always forthcoming. Likewise, when an unexpected opportunity arose, such as the chance to start a business, there was rarely enough saved up to take advantage of it. Finding ways to convert short-term accumulations into a pool of accessible savings was thus a continuing concern.

Need for Flexible Borrowing

In both developed and developing countries, "consumer finance" often carries negative associations. In the United States, that is because of associations with predatory lenders and extreme credit card debt. In poorer countries, it is due to tales of exploitative moneylenders. So policymakers tend to be more enthusiastic about credit for productive purposes like microenterprises.

But the households we studied were more likely to need consumer finance than microenterprise loans. Even loans that were nominally made to support small businesses were often diverted to other purposes. In South Africa, low-income households may use loans to cope with health shocks, pay for school fees, put food on the table, or participate in communal and religious activities. The choices households made suggest that they need access to credit for flexible purposes. That is why the conversation on microcredit is too narrow. A good first step would be to reimagine consumer finance in a more constructive light—without dismissing the serious and ongoing concerns about overindebtedness and predatory lending.

Looking Forward

Low-income South African households actively manage finances, save money, and seek lending beyond business finance. These three findings suggest that the financial lives of the poor are not much different from the financial lives of richer people. That is why moving away from a strict focus on asset building toward improving access to basic banking services may be a better way to help low-income but savvy money managers get what they need to improve their lives.

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Endnotes

1 This essay draws heavily from Daryl Collins and Jonathan Morduch, "Banking Low-Income Populations: Perspectives from South Africa," in eds. Michael Barr and Rebecca Blank, *Insufficient Funds* (New York: Russell Sage Foundation, 2009).

2 Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (Armonk, New York: M. E. Sharpe, 1991).

3 We proportionately selected households from across the income spectrum in each neighborhood studied. The work described here was part of a collaborative project that also took place in Bangladesh and India. See Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, *Portfolios of the Poor: How the World's Poor Live on $2 a Day* (Princeton, New Jersey: Princeton University Press, 2009).

4 Numbers that are compared directly with U.S. numbers are converted from South African rand to U.S. dollars at the purchasing power parity rate of 2.7. All others are converted at the market exchange rate.

5 All U.S. data quoted here are from the *Survey of Consumer Finance*, 2004, the year that the South African Financial Diaries project was conducted.

6 Names of respondents have been changed to protect identities.

7 Richard H. Thaler, "Anomalies: Saving, Fungibility, and Mental Accounts," *Journal of Economic Perspectives* 4, no. 1 (1990): 193-205.

8 Stuart Rutherford, *The Poor and Their Money* (Rugby, United Kingdom: Practical Action, 2009).

Fair and Cost-Effective Property Tax Relief

by Daphne A. Kenyon, Ph.D., and Adam H. Langley

New England relies more heavily on the property tax than any other region of the United States. (See "Property Tax Nationwide.") This reliance, which derives from the importance New England places on local government, provided critical revenue stability in the recession. Yet many homeowners feel overburdened by property taxes, especially families of limited means whose property taxes have risen faster than their incomes, or families whose incomes have declined because of layoffs, retirement, divorce, or illness.

Is there a cost-effective policy option for targeting property tax relief to low- and moderate-income households facing the heaviest burdens? Consider how the property tax circuit breaker can work.[1]

Property tax circuit breakers provide households with direct property tax relief for a given property tax bill, relief that increases as income declines. Property tax circuit breakers aim at keeping taxpayers from being overburdened, just as electrical circuit breakers keep circuits from being overloaded by current. The District of Columbia and 33 states, including all the New England states, use circuit breakers. (See "New England Circuit Breaker Programs, 2009.") But although they have great potential for helping those most in need, many states' programs are not ideal and should, in our view, be reformed.

Property tax circuit breakers provide targeted, rather than broad-based, tax relief, so they are relatively inexpensive. A simulation using data on household income and property taxes shows that three well-designed circuit breaker programs for Massachusetts, say, would cost between 5.0 percent and 8.0 percent of total property tax collections.[2] The authors' recommendations follow.

Provide Adequate State-Funded Relief

In our view, many circuit breakers are too restrictive to provide adequate tax relief. New Hampshire is unique in providing circuit breaker benefits for state property taxes only. Unfortunately, since state property taxes account for only 12 percent of state and local property tax revenues, many taxpayers who are overburdened by property taxes will not receive adequate relief through New Hampshire's program.[3]

In nearly all states with circuit breakers, programs are funded by the state. Some states with state-funded circuit breakers, such as Rhode Island, allow local-option enhancement of circuit breaker relief. Local-option relief has several inherent flaws, however. When overburdened taxpayers are concentrated in a community with a meager tax base, locally funded tax relief is not feasible. In addition, only a state-funded program will ensure that households with the same income and property tax burdens receive the same property tax relief no matter where they live in the state.

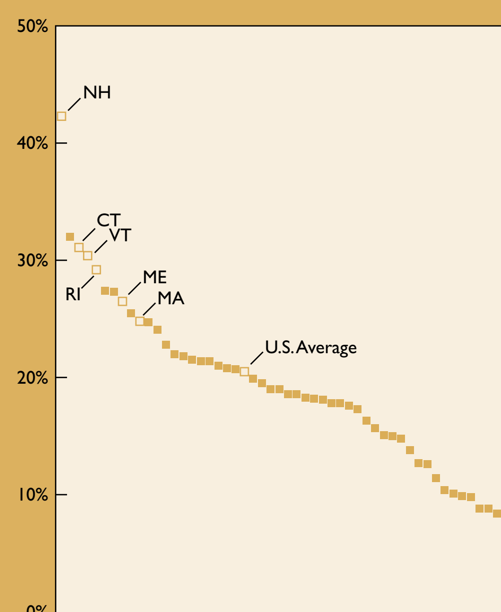
Cover Nonelderly and Renters

Across the country, more than two-thirds of states provide circuit breaker programs only for the elderly. In New England, Connecticut and Massachusetts limit circuit breaker relief to the elderly, but the other states provide tax relief benefits to households of all ages. The logic is that once all costs of homeownership are considered—including mortgage payments, property taxes, utilities, and insurance—the proportions of elderly and nonelderly homeowners paying more than 35 percent of their income are nearly identical. In the states concerned about that, circuit breakers automatically target tax relief to households paying a disproportionate share of income in property taxes regardless of age.

New Hampshire and seven other states limit circuit breaker eligibility to homeowners. However, we believe renters should also be eligible because they pay property taxes indirectly, in the form of higher rent. Most states that offer benefits for renters estimate their property taxes by specifying the percentage of rent assumed to be property tax. The most common figure is 20 percent.

Property Tax Nationwide

Property tax as a share of total own-source state and local revenues (2007)



Source: 2007 Census of Government Finance.

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Use a Multiple-Threshold Formula

The circuit breaker formulas used in New England fall into two categories: *threshold* and *sliding scale*. A *single-threshold* circuit breaker provides a benefit for the portion of a claimant's property tax that exceeds a given percentage of income. The taxpayer covers the entire tax bill up to this threshold (10 percent in Massachusetts, for example), and the circuit breaker provides tax relief equal to the amount of the property tax above the threshold.

Many states use a *multiple-threshold* formula, with threshold percentages that increase from the lowest income bracket to the highest. In contrast, a sliding-scale circuit breaker reduces property taxes by a given percentage depending on income, with the same percentage reduction in property taxes for all eligible taxpayers within an income bracket regardless of whether their property taxes are high or low. Threshold circuit breakers do the best job of targeting tax relief to heavily burdened households, because these formulas calculate benefits based on property taxes as a share of income—the best measure of a household's ability to pay. Of the two types of threshold formulas—single and multiple—multiple-threshold circuit breakers target the greatest proportion of total tax relief to needy taxpayers.

Set Appropriate Income Ceilings and Benefit Limits

Most state programs use income ceilings and restrictions on maximum benefits to control state costs and avoid providing tax relief to upper-income households. States should avoid setting limits that are too low and do not provide meaningful tax relief to those in need. The low ceilings on income in Connecticut, New Hampshire, and Rhode Island exclude a large number of middle-income households from circuit breaker eligibility. Similarly, Rhode Island's maximum benefit of $300 seems inadequate given that, according to the American Community Survey, the state's median property tax bill exceeded $3,000 in 2006.

However, very generous programs impose higher costs on state government. In addition, broadly available property tax relief can shield taxpayers from the cost of expanded services, contributing to overspending. In Vermont, middle-income households may be eligible for extraordinarily generous benefits. States with generous circuit breakers should consider a copayment requirement. For example, Michigan's threshold circuit breaker has a copayment of 40 percent, meaning the state relieves 60 percent of property tax above the threshold, while the taxpayer must pay 40 percent of total liability.

Maximize Timeliness and Visibility

States use three administrative arrangements to deliver circuit breaker benefits: property tax exemptions and credits, income tax credits, and direct rebate checks. The timeliness and visibility of property tax relief are maximized when benefits are extended using either a property tax exemption to reduce the property's assessed value or a credit to reduce the tax bill based on full assessed value. Such arrangements mean that homeowners who have paid their property tax bill do not have to wait until they file their income taxes to receive a partial refund, which may be perceived as income tax relief instead of property tax relief. Renters should receive relief through direct rebate checks. In New England, only Connecticut and Vermont use this two-pronged approach.

New England Circuit Breaker Programs, 2009

State and program name	Eligible groups	Type of circuit breaker	Income limit	Max. benefit	Program cost (2006)*: $ Millions	Program cost (2006)*: As share of total property tax collections
Connecticut						
Homeowner's elderly/ disabled circuit breaker tax relief program	Homeowners, 65+ or disabled	Sliding scale	$30,500 to $37,300	$1,000 - $1,250	$40.6	0.54%
Renters' rebate for elderly/disabled	Renters, 65+ or disabled	Single threshold (5%)	$30,300 to $37,500	$700 - $900		
Maine						
Property tax and rent refund program: General Refund Program	Homeowners and renters; all ages	Single threshold	$61,400 to $81,850	$1,600	$42.8	1.94%
Property tax and rent refund program: Senior Refund Program	Homeowners and renters, 62+ or 55+ if disabled	Sliding scale	$13,900 to $17,200	$400		
Massachusetts						
Real estate tax credit for persons age 65 and older	Homeowners and renters, 65+	Single threshold (10 %)	$51,000 - $77,000	$960	$29.8	0.28%
New Hampshire						
Low- and moderate-income homeowner's property tax relief program	Homeowners, all ages	Sliding scale	$20,000 to $40,000	Applies to state property tax only	$3.3	0.12%
Rhode Island						
Rhode Island Property Tax Relief Credit	Homeowners and renters, all ages	Multiple threshold	$30,000	$300	$14.1	0.75%
Vermont						
Homestead Property Tax Income Sensitivity Adjustment	Homeowners and renters, all ages	Combination single and multiple threshold	$47,000 to $90,000	$8,000	$137.6	11.98%

Note: Threshold circuit breakers (single or multiple) specify a threshold percentage of income paid in taxes that must be exceeded before any tax relief is available. Sliding scale circuit breakers define several income brackets. All eligible claimants within an income bracket qualify for the same percentage reduction in taxes regardless of the amount of their property tax bill.
Source: Various state sources
*All cost data are from 2006 except for Connecticut (2009) and Rhode Island (2007).

Do Public Outreach

Circuit breaker programs should be accompanied by outreach to ensure that those eligible for their state's program are aware of it. States may choose from a wide range of outreach options: speaking tours, public service announcements, newspaper ads, and brochures. Nonprofits can help government agencies to provide information. For example, the Gerontology Institute at the University of Massachusetts has worked with a range of aid programs for seniors to promote the state's circuit breaker.

The Internet is a particularly useful tool for providing information about circuit breaker programs. Community Resources Information Inc. (CRI) is a nonprofit organization dedicated to developing web sites on state and local resources for low- and moderate-income families, including one for Massachusetts.[4] Clearly written, well-organized, and frequently updated, it provides comprehensive information on a wide range of resources. The property tax circuit breaker is one entry in the category of tax benefits. The site, which provides information in English, Spanish, and Portuguese, allows the user to download applications and provides phone numbers for users who need personal assistance.

Even with a resumption of economic growth, state and local government revenues are likely to suffer for another year or two. In this climate, reducing reliance on the property tax, the most stable of the major revenue sources, is unlikely. But well-designed property tax relief programs are essential to help households facing the heaviest burdens. New England states should take a close look at their circuit breaker programs to make sure the relief they offer is as fair and cost effective as possible.

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Endnotes

1 See John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany Paquin, *Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers* (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2008).

2 Daphne Kenyon and Adam Langley, "Property Tax Relief in New England: The Case for Circuit Breakers" (presentation to the New England Study Group, Federal Reserve Bank of Boston, September 23, 2009).

3 Computed from New Hampshire Department of Revenue data, www.nh.gov/revenue/munc_prop/2008.htm.

4 See www.massresources.org.


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