



**JOINT CENTER FOR HOUSING STUDIES**  
of Harvard University

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# **LISTENING TO LEADERS**

A Report on

# **THE FANNIE MAE FOUNDATION REGIONAL ISSUES FORUMS**

**Atlanta  
Chicago  
Los Angeles  
New Orleans  
New York**

**May 2001**

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**May 2001**

The Joint Center for Housing Studies of Harvard University

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Any opinions expressed are the result of the authors' synthesis of the opinions shared by the participants of the Issues Forums, and not the opinions of the Fannie Mae Foundation, the President and Fellows of Harvard University, or the Joint Center for Housing Studies.

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*Listening to Leaders*

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## **ABSTRACT**

### **Listening to Leaders**

#### **A Report on the Fannie Mae Foundation Regional Issues Forums**

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The Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University convened a series of Issues Forums during the fall and winter of 2000-2001 to provide direction to the Foundation's new Knowledge Access strategy. These forums were attended by more than 100 representatives from community-based development organizations, local government, intermediary organizations, foundations, institutions of higher learning, private developers, and others who create and implement housing policy and programs. These participants form an emerging network of committed leaders that will assist the Foundation in building community capacity and creating tools to address issues such as the sustainability of homeownership for low-income families, the impact of subprime and predatory lending, a declining supply of affordable rental housing, gentrification, current development and growth patterns/restrictions, the need to build nonprofit capacity, declining resources for housing and community development, useful coalition-building, and the necessity to develop tools that substantiate need as well as success in community development. The Foundation intends to use the information assembled from these forums to create and disseminate tools and strategies for practitioners and policymakers.

# Listening to Leaders

## A Report on the Fannie Mae Foundation Regional Issues Forums

### Introduction

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The Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University convened a series of Issues Forums during the fall and winter of 2000-2001 to provide direction to the Foundation's new Knowledge Access strategy. The Foundation used the forums to identify housing and community development issues and trends and, in turn, intends to use that information to create and disseminate useful knowledge and information to practitioners and policymakers.

These forums were attended by community development and government leaders, including those who had received fellowships from the Foundation to attend the Kennedy School of Government's Program for Senior Executives in State and Local Government, recipients of the Foundation's James A. Johnson Fellowship, Maxwell, or Sustained Excellence Awards, as well as other local practitioners and policymakers. These participants form an emerging network of committed leaders that will assist the Foundation in building community capacity and creating tools to overcome challenges and barriers to successful housing strategies. The themes and issues that arose from these forums will inform the Foundation's ongoing development of this network and lead to the generation of specific products for use by housing practitioners and policymakers.

Forums were held in the Northeast (New York; November 13, 2000), Midwest (Chicago; November 20, 2000), West (Los Angeles; January 11, 2001), and the Southeast (Atlanta; January 26, 2001). Approximately fifteen to thirty individuals participated in each forum for a total of more than one hundred, including representatives from community-based development organizations, local government, intermediary organizations, foundations, institutions of higher learning, private developers, and others who create and implement housing policy and programs. Each of the forums met as a larger group and then broke into smaller gatherings to enable fuller and more active participation. In addition, an abbreviated version of the forum was held during the

Alumni Reunion of the Kennedy School of Government's Program for Senior Executives in State and Local Government that was also attended by other Kennedy School of Government Executive Program alumni (New Orleans; November 17, 2000, referred herein as The Alumni Forum).

The meetings were facilitated by the Joint Center and attended by senior-level Foundation staff. The forums were structured around an initial discussion of the Joint Centers' annual report, *The State of the Nation's Housing*. The report, released in June 2000, assesses national trends; the forums explored how closely they track with what local nonprofit organizations and government agencies are experiencing in their communities. The report's findings were used to stimulate discussion of the ways in which regional and local issues or challenges may mirror or diverge from national trends.

## The State of the Nation's Housing

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In general, housing markets began the twenty-first century on a high note with home sales, homeownership rates and the value of residential construction all setting new records in 1999. Widespread home price inflation lifted household net worth and the economic boom created homeownership opportunities for families once outside its reaches. But the remarkable prosperity did not reach all Americans and the trends towards rising interest rates, home prices and rents put a particular affordability burden on millions of low-income households. The following summarizes some of the major findings in *The State of the Nation's Housing*:

### Homeownership on the Rise

- ❑ Powered by strong income and employment growth, the national homeownership rate reached a new annual high of 66.8 percent in 1999 and continues to climb across all geographic regions, age groups, and racial/ethnic groups. Seven million new owners were added between 1994 and 1999. Housing starts have shown no significant decline for eight years.
- ❑ The popularity of adjustable rate mortgages (ARMs), low down-payment products, flexible underwriting standards, and improved risk assessment tools have boosted the ability for millions of low-income families to become homeowners.
- ❑ Although one-third of first-time buyers are now minorities, there is still an enormous gap (26.5 percentage points) between whites and nonwhites who own their homes.
- ❑ Homeownership is still the cornerstone of wealth. The median wealth for renters making less than \$20,000 is \$1000; for owners making less than \$20,000, median wealth is \$70,000.
- ❑ Eighty percent of lower-income families are choosing to purchase homes outside of low-income neighborhoods (minimizing the efforts to promote stability through homeownership in low-income communities). Minorities and low-income families that buy into wealthier communities are causing white families to flee.

## **Subprime Lending**

- ❑ It is a growing concern that conventional lenders are no longer accessible to households in all markets. According to a 1996 Freddie Mac study, between ten and thirty-five percent of subprime borrowers could have qualified for lower-cost prime loans.
- ❑ Between 1993 and 1998, subprime lenders increased their share of home purchase loans in metro areas from one to five percent, helping nearly a half-million families buy homes, including many low-income and minority households.
- ❑ In neighborhoods that are both low-income and minority, subprime lenders' share of loans soared from two to fifteen percent in only five years.
- ❑ Growth in refinance by subprime lenders has been even more dramatic, and the statistics indicate a target for minority markets where their marketshare has largely increased in both low and high-income areas.

## **Losses of Affordable Housing**

- ❑ Despite the strong economy, more than 5.4 million lower-income renters are devoting more than half their incomes for housing. This is close to one-tenth of all households. Working full-time at the current minimum wage does not produce an income that keeps pace with housing costs.
- ❑ Federally subsidized housing is decreasing. Private owners are opting out of programs to take advantage of higher prevailing rents. Extensions on expiring fifteen and twenty-year contracts are now subject to annual budget appropriations.
- ❑ Demolition of public housing units is eliminating many badly deteriorated units without providing one-for-one replacement. About 28,000 units of federally subsidized housing have been eliminated, replaced by only 7,000 units.
- ❑ Construction of affordable units financed through tax credits has slowed steadily, primarily because funding is not adjusted for inflation.

## **Sprawl and Smart Growth**

- ❑ Households are able to live and work at greater and greater distances from the urban core. Low-density metro counties with developable land have experienced explosive



job and housing growth. The U.S. added twenty percent more jobs to low density counties of metro areas in the past five years.

- High-income households are continuing to leave the urban cores at alarming rates.
- Jobs are moving away from city cores faster than housing.
- CDCs are gaining capacity in comprehensive development including mixed income, jobs and housing, and affordability and playing an important role in the smart growth development of metropolitan areas.

### **Changing Demographics**

- As the baby boomers age, the demand for amenity-rich homes and second homes will continue to rise. Twelve million households will be added annually this decade.
- Echo boomers, children of the baby boomers, will increase the demand for manufactured housing, starter homes, and rental apartments.
- Sharp disparities in wealth exist between senior owners and renters, and across race and ethnic groups, and many older Americans will be left without affordable housing options.
- Minorities and immigrants will play an increasingly important role in the housing market over the next ten years, as these populations have tended to lag behind whites in homeownership and service from prime lenders.



## Common Issues Emerge

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Against this backdrop of national trends from *The State of the Nation's Housing*, regional experiences were voiced through the forums. Many different issues were addressed but common themes arose to dominate the discussions. The following issues summarize these themes and highlight regional variations in their importance and character.

### Homeownership at the Margins

#### Forum Findings

While most agreed that the rise of homeownership by low and moderate-income families has the potential to offer security and a strategy to develop long-term assets, prevailing external forces may place these gains at risk. Among these forces are the current flux of the nation's economy (potential loss of jobs/income), changing demographics (more seniors), rise in the popularity of manufactured housing particularly in the South, and the ascendancy of predatory lenders. All told, these forces pose increased risks of deferred home maintenance as well as default or foreclosure. Most participants recognized that these results impact the assets of the family and the entire community.

#### Regional Variations

- In the Northeastern regional forum, participants expressed concern about what might happen in the event of a downturn in the economy, especially for vulnerable populations such as immigrants and minorities (that have made great strides in the rate of homeownership in recent years) and the elderly. The participants acknowledged that the aging of the housing stock and of homeowners, and an increase in owner-occupancy, could lead to higher numbers of poorly maintained, abandoned, or investor-owned properties.
- Participants in the Midwestern forum are also concerned about the lack of available resources to maintain home value. Due to the increased cost of housing in recent years, low-income families either cannot afford to maintain their homes properly or can only afford to purchase homes in need of immediate repair. In most cases, rehab loans and

subsidies are scarce. In addition, low-income families often require homebuyer education to maintain their homes properly and nonprofits rarely have the resources to invest in each family what is necessary. The lack of home maintenance is having a detrimental impact on the value of these communities.

- Participants in the Southeastern forum expressed concern over the already high rates of abandoned, vacant and tax-foreclosed properties, and the popularity of manufactured housing. With forty percent of all new homeowners in the South purchasing manufactured housing, participants are concerned that these homes do not appreciate in value and more easily become rundown. The participants agreed that the risks associated with sustaining home ownership for low-income families sometimes leads nonprofits to encourage renting as a better option for their customers.
- Participants in the Western forum expressed the need for more bi-lingual homeownership counselors to accommodate their growing immigrant population.
- Alumni forum participants suggested that homeownership for lower-income families might be protected through a special tax structure.

## **Impacts of Subprime and Predatory Lending**

### **Forum Findings**

Whereas most participants would agree that subprime (risk-based pricing) mortgages have an appropriate place in making homeownership possible for some low and moderate-income families, they also agree that borrowers should receive the lowest rates for which they qualify. One concern is that subprime lenders are targeting families that might otherwise qualify for conventional mortgages, thereby stripping the family of its full asset development potential during the life of the loan. Because these subprime mortgage companies are state regulated, there is little that can be done at the federal level to control their activities. An even greater concern is when the subprime lenders unscrupulously target vulnerable populations – often the elderly or illiterate – and make loans that strip equity from borrowers or set them up for default. With conventional lenders less accessible, *predatory* lenders are finding success in many low-income communities. The

result is often foreclosure and asset devastation for families but also for the communities that are left to contend with rundown or abandoned properties.

### **Regional Variations**

- Participants in the Southeastern forum expressed great concern over the impact of subprime and predatory lending, and called for the need to educate the public against such lenders.
- Northeastern forum participants also expressed concern over the subprime lending market and questioned whether these lenders were serving homebuyers who would qualify for conventional loans. In Massachusetts, participants noted an increase in the share of lending from unregulated mortgage companies and a decrease in lending from banks, resulting in more foreclosures. Massachusetts's participants believe this has had an impact on the increased number of homeless families.
- Participants in the Midwestern forum also expressed concern about predatory lending and the need for public education to combat its effects. Participants believe that these lending trends are part of the large-scale consolidation of the industry and that the line between subprime and predatory lenders is getting blurred. As a result of these lending practices, the housing community in the Midwest must spend an inordinate amount of time to protect owners' equity.
- In the Western forum, an analyst from Portland noted that foreclosures there have doubled in the past year, attributing much of this to the prevalence of predatory lending. Nonprofits have seen families with zero percent Habitat for Humanity mortgages refinance with loans requiring an interest rate of fifteen percent. As a result, some nonprofits are putting riders on their mortgages stipulating that clients can't take out a second loan without the nonprofit's preapproval.
- In the Alumni forum, participants called for more hard data on the impacts of predatory lending.

## **Pressure on the Rental Housing Market**

### **Forum Findings**

Explosive economic growth is impacting affordability in both the ownership and rental markets. The disparity between incomes and the cost of housing is growing at an alarming rate, making it difficult for low and moderate-income families to find an affordable place to live. As children of baby boomers enter the rental housing market, the need has compounded. At the same time, multifamily rental properties are aging and not being well maintained. Many of these are being demolished because the cost of rehabilitation would be too high. In some cases, code restrictions (including lead based paint regulations which increase costs, and smart growth regulations which restrict supply) are impacting the viability of affordable rental housing. Public subsidies are decreasing and what resources are available make doing the deals very difficult. Demand from market-rate customers puts additional pressure on available land to be used for higher-priced housing.

### **Regional Variations**

- Participants in the Western forum are concerned about the increasingly high cost of housing in nearly all communities in California and Portland, and the gap between the cost of housing and income. (Ron Garcia of Fannie Mae mentioned that sixty-five percent of the homeless in Orange County are working.) This is a special concern as nonprofit developers struggle to increase the supply of affordable multifamily housing against the odds of decreasing subsidies, available financing, and other impediments. The participants called for the development of innovative financing mechanisms for multifamily properties. In particular, participants noted that a) there is little capital available from financial institutions for five to fifty unit properties, and b) owners of two to ten unit properties are often unaware of federal programs that can help them maintain their housing stock.
- Participants in the Midwestern forum also are finding it difficult to maintain public interest and funding for the construction and maintenance of rental housing. The rehab costs of units are so high that property owners often raze units rather than incur the expenses to comply with abatements, health and safety issues and codes (including

lead-based paint). Supported by HUD's emphasis shift away from rental housing in favor of homeownership and economic development, and without an organized public demand on the need for affordable rental units, states have the option to use their valuable block grant funds for other purposes. The result is fewer overall affordable rental units and the demand enables rents that exceed families' reasonable capacity to pay.

- Southeastern forum participants agree that there is a great need for more affordable multifamily housing and for subsidies and strategies that could increase this housing stock.
- In the Northeastern forum, one participant from Connecticut noted that a high median income is allowing housing costs to skyrocket. All across the region, higher housing costs are fueling a growing affordability gap. Participants acknowledged a problem with aging housing stock, and that the demands for market-rate housing could likely cause these units to be rehabbed or reconstructed for higher-income residents. In addition, participants noted the anticipated negative impact of lead-based paint regulations, which will effectively decrease significantly the available funds for affordable housing by escalating costs of regulatory compliance. Participants also expressed concern over the effectiveness of their programs to meet the housing needs of a constant influx of immigrants.
- In the Alumni forum, participants felt that the shift of HUD programs away from the rental market was having a significant impact on availability and sustainability of rental housing.

## **The Force of Gentrification**

### **Forum Findings**

Closely related to pressures on the rental market but highlighted as an especially difficult and emerging issue is gentrification. One of the greatest challenges facing nonprofit developers is to enhance community value (feeling of security, quality living environment, maintained property values) without causing lower-income residents to be priced out of the community. Nonprofits strive to create healthy, mixed-income, diverse

communities but this is increasingly difficult as demand by higher-income residents drives prices up and restricts the options of lower-income families. While there are examples in which municipalities have successfully addressed the problem by implementing regulatory incentives such as inclusionary zoning and/or density bonuses, this is an issue for which nonprofits feel especially helpless and without a roadmap.

### **Regional Variations**

- Participants in the Western forum agree that gentrification is a major problem facing their area, and they do not know what to do about it. Several participants suggested the development of government regulations that guarantee affordability might be one answer.
- Similarly, participants in the Midwestern forum have found that creating successful mixed-income developments is a particular challenge. Low-income populations are displaced as their communities become revitalized.
- Participants in the Southeastern forum agree that strategies need to be developed to improve neighborhoods without inviting gentrification. In the last fifteen to twenty years, more and more private investors are playing the developer role, causing just a few homes in a neighborhood to increase values throughout the area, and pricing low or moderate-income families out of the market.
- Northeastern forum participants agreed that gentrification is a concern, including all over the greater Boston area.
- Alumni forum participants suggested that the development of programs such as *Section 8 for Homeownership* might help keep value with the residents.

## **Sprawl, Restricted Developable Land and Growth Management**

### **Forum Findings**

The short supply of developable land is playing a significant role in eroding housing affordability. With the scarcity of available urban real estate and the advent of smart growth strategies in response to sprawl, nonprofit developers are often faced with the challenging task of finding affordable available land that is also close enough to services,



amenities, transportation, and jobs. While brownfields may be available in desirable development locations, they are often cost-prohibitive and very difficult to remediate in a timely and satisfactory way.

### **Regional Variations**

- Participants in the Northeastern forum expressed real concerns over dwindling land availability, high costs, and great demand.
- For participants in the Western forum, limited development opportunities and environmental concerns (and restrictions) are a major impediment for nonprofits. With few public transportation options, traffic is a major problem especially since the cost of housing has caused low-income families to live farther away from their jobs. Several of the participants noted that the scarcity of land often pits one nonprofit against another. The real solution would be to encourage a regional focus to land use and overall development.
- For participants in the Midwestern forum, it is a considerable challenge to place affordable housing where job growth is located. On the flip side of this issue, members of the rural contingency expressed concern about areas that are experiencing depopulation making it difficult to attract resources for basic infrastructure.
- Participants in the Southeastern forum also expressed concern over the tension around issues of land use and growth management. In some areas such as Charlotte, North Carolina, there is little affordable housing in the outer rings, and few services such as transportation, health care, education, job training or social services. Without affordable housing or services readily available, employees would need to commute long distances. As a result, employers such as Microsoft Corporation opted not to locate in Charlotte and this impacted the further development of the broader region.
- Participants in the Alumni forum suggested that urban development problems are persisting as the high costs of urban construction, mixed with the poor quality of inner city schools and services, are driving higher-income families away. The families who cannot afford to move are left to face a mismatch between where affordable housing and jobs are located. The Alumni suggested that living wage initiatives are important,

and that proposed solutions should be presented as economic solutions involving the private sector.

## **Building Nonprofit Capacity**

### **Forum Findings**

Increasingly, community-based developers face extraordinary challenges. They are expected to organize communities, generate indigenous leadership, package complicated development deals, and strategically build communities. With decreasing public subsidies and resources, scarce or restricted land availability, and competition from market-rate for-profit developers, nonprofit organizations are finding that they need to operate more efficiently – with an outcomes orientation – than ever before. And yet, training and technical assistance for nonprofit professionals is expensive and difficult to acquire. Many nonprofit developers try to learn very complex financing and management techniques on the job. Professionals often acquire experience at a nonprofit and then get recruited by a for-profit employer that can afford to pay higher wages. While there is a growing trend among foundations and corporations to invest in nonprofits to help them develop capacity, the reality is that most community-based organizations are project-driven, making long-term sustainability more difficult.

### **Regional Variations**

- In the Western forum, participants agreed that their area's great affordable housing needs will only be met by a strong nonprofit community. Shoring up for success will require the capacity building of community-based organizations and investing in their sustainability.
- Participants in the Midwestern forum concurred that the changing role of nonprofits and issues relating to nonprofit capacity are critical. Members of the rural contingency reinforced the notion that the sustainability of nonprofit organizations is always a concern and that access to training opportunities for housing and community development professionals is very hard to come by.
- Southeastern forum participants acknowledged the need for capacity building of community development organizations, and that creating a framework for a strategic

process of community development might help some nonprofits navigate through the complicated, and complementary, roles of different development methods such as housing, workforce development or health care. The concern is that community developers do not have the capacity to be proactive, and are putting band-aids on community ills. The group focused on the positive roles that could be played by national intermediaries such as The Enterprise Foundation, LISC and Neighborhood Reinvestment, as well as local governments through operating support and technical assistance. Peer-to-peer technical assistance programs have been particularly effective at developing CDC capacity; the Federal Home Loan Bank of Atlanta pays experienced CDCs to provide technical assistance and support to less experienced CDCs.

- Alumni forum participants emphasized the enormous responsibility that community-based organizations have in the challenge of creating healthy communities with appropriate housing that accommodates diversity.

## **Expanding Need, Shrinking Resources**

### **Forum Findings**

Comments by all forum participants indicated that the impact of reduced federal subsidies is being felt across the country. Compounding the problem that scarce resources exist for affordable housing development is the complexity of using these programs. For the support programs that do exist, they are extremely elaborate and require multiple finance and subsidy partners in order to make them viable. In addition to a desire to draw attention to the unmet needs and the responsibility of government, participants acknowledged a need to attract private sector partners such as employers, financial institutions, and foundations with incentives to participate in the development of affordable housing. There was much discussion about the role that employers could play, given their own self-interest in needing housing for their employees, and the need for the general public and policymakers to understand the magnitude of the housing crisis. That without additional resources devoted to housing issues for low and moderate-income families, the crisis would spiral out of control.

### **Regional Variations**

- In the Northeastern forum, participants discussed how trends and indicators that measure need, and that measure progress toward meeting that need, could be presented in a way that would resonate with private sector partners, including foundations, and with government officials at all levels to create additional resources. Participants from Massachusetts noted that decreases in housing subsidies from federal and state levels were compounded by huge increases in the costs of land, construction, and skilled labor.
- A local government official participating in the Western forum worried aloud that proposed tax cuts will severely impact what little federal resources are currently available for community developers. Other participants expressed concern over the lack of funding for credit counseling and homebuyer education. Still others suggested that Fannie Mae, Freddie Mac, and the Federal Home Loan Bank system work together to combat the problem of resources by making more capital available for affordable housing developers. In particular, participants noted that there is little capital available from financial institutions for five to fifty unit properties, and that owners of two to ten unit properties are often unaware of federal programs that can help them maintain this housing stock.
- Southeastern forum participants agreed that there is a great need for capital to rehab and preserve existing buildings. In addition, there is a need for more and better consumer education, including homebuyer counseling and financial literacy.
- Participants from the Midwestern forum were concerned about the lack of financial tools and subsidies for single-family rehab. They also expressed concern over the complexity of compliance with government regulations that federal subsidy programs require. Working through these obstacles creates additional costs and creates uncertainty. On the positive side, a community lending director from the Chicago area reported on a successful employer-sponsored housing project in Aspen, Colorado. She believed that the project worked because the housing was designed to attract scarce local labor such as police, teachers, etc. and that the employers were acting out of self-interest to bring these workers closer to the area. She suggested that nonprofits must

appeal to the self-interest of their partners – and underscore the win-win elements of partnership – in order to attract the necessary resources to accomplish the larger good.

- Members of the Alumni forum expressed concern over the lack of gap financing for rural homeowners, as well as the impact that the shift of HUD programs away from rental markets was having on the availability and sustainability of rental housing.

## **Coalition-Building as a Powerful Tool**

### **Forum Findings**

An effective way that participants have found to deal with housing challenges is to develop formal collaborations between a group of community-based organizations or, sometimes very effectively, between a cross-section of public sector, nonprofit, private sector, faith-based, and grassroots agencies. In coalitions, all parties become stakeholders in the development and execution of solutions. This approach is also helpful in that the coalition – and not an individual agency – takes responsibility for advocacy and other activities that may be seen as controversial. These partnerships are better positioned to seek additional resources than any of the individual organizations alone. Very often, coalitions are helpful in linking housing needs to a broader community development agenda. For those with employers, funders, government and other partners at the table, coalitions can be a very effective tool for the development and implementation of comprehensive strategies. Coalitions that actively involve private sector partners are most effective because they bring resources and reinforce a sustainable, realistic, win-win agenda.

### **Regional Variations**

- In the Western forum, participants agreed that coalitions proved an effective way to deal with complex issues. They could help raise visibility for housing issues and ensure that they are considered in discussions about growth and development. In Portland, a consortium of nonprofits and others created the Community Development Network of Portland that is staffed by a policy specialist who contributes to area/regional meetings in which land use is discussed. The consortium enables their

political input without it having a negative impact on the allocation of resources for individual organizations.

- One community lending officer in the Midwestern forum reported on a successful statewide alliance in Minnesota. The alliance held a public education campaign to change the negative perception of public housing and create awareness of housing affordability issues. They developed public relations materials that were shared with the group. Another coalition, the Chicago Forum on Housing Solutions, has convened stakeholders to work on a regional information infrastructure for affordable housing. The collaboration involves business, community development, and the philanthropic sector.
- Southeastern forum participants saw the need to link housing to broader community development goals. They felt building coalitions and forming consolidated plans with local governments and other organizations was key. In North Carolina, the state association of CDCs was successful in organizing its membership to advocate for a very significant housing and community development fund at the state level. This precedent-setting model has inspired other states, including South Carolina, to collaborate in the development of public resources.<sup>1</sup> Other participants in the Southeastern forum expressed an interest in creating a national focus around housing and other issues. The Millenium Commission on Housing was raised as one possible vehicle to bind industry players and establish principles and policies with credibility. The Commission could draw a national spotlight and invite federal attention to these issues.

## **Demonstrating the Need**

### **Forum Findings**

Participants acknowledged that they struggle to legitimize the need and results of their efforts, and that effectively demonstrating the need would attract resources and put housing issues into context with a broader economic development agenda. Each group noted that they are often challenged by the difficulty in substantiating housing needs, and

comprehensive impact of affordable housing development on a community. Practitioners use available information from HMDA, Census, local universities, utilities (that track shut-offs due to lack of payment), school systems (that track free and reduced lunch programs), trade associations, HUD and others, but they increasingly need better data to justify the need for their programs and to systematically measure their results.

### **Regional Variations**

- Participants in the Western forum agreed that good data collection would be necessary to convince policymakers, lenders and others of the seriousness of the affordable housing problem.
- Southeastern forum participants expressed their interest in acquiring data on generally how affordable housing impacts neighborhoods, appraised home values, multifamily housing and the displacement of the population. One participant noted that it would be useful to have data to help prove to developers or other potential partners how they could make money by working in low and moderate-income communities.
- Participants in the Northeastern forum wondered if there was any research or information on the impact that the changing economic base will have on low-wage service workers' ability to afford housing and other amenities. Participants also suggested that additional studies on the success of affordable housing efforts – especially in the area of homeownership – would be very helpful. And, to make them more palatable to the public and policymakers, perhaps these issues ought to be framed as *economic* rather than *social* issues.
- Alumni forum participants were interested in hard data on the impact of subprime and predatory lending.

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<sup>1</sup> While not mentioned specifically in the Forum, the North Carolina model is the kind of example participants frequently referred to.





## **Implications for the Fannie Mae Foundation**

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The Forums resulted in a clearer understanding of which issues the Foundation's housing leadership program and practitioner network believe most directly influence their capacity to address housing challenges. This understanding should inform the activities of the Foundation under its Knowledge Access Strategy. The recommendations that follow are based on the needs expressed by Forum participants.

### **Create an Interactive Alumni Network**

The Foundation ought to consider using the expertise organized through these forums to help it strategically develop tools and information that will be most useful to practitioners in the field. This can be accomplished by creating a formal network of *alumni* of Fannie Mae Foundation fellowship and awards programs. As a first task, this network can be asked to review and comment on the findings presented in this report and the resulting recommendations. This exercise can be a test for using the Internet as a place where the alumni network can receive the report, provide comments, and review the comments of others. The report could be delivered via the KnowledgePlex to solicit feedback and refine this report. In subsequent rounds, products developed to respond to the information needs expressed at the Forums could then be regularly posted, where participants in the network could comment on beta-versions of the products and on the usefulness of the materials developed. As they use the tools, they can contribute additional knowledge about their usefulness and ways to improve them.

### **Conduct Regular Forums**

As part of the Forum series, the Foundation should consider periodically reconvening alumni and other local practitioners and policymakers to affirm prior assessments of key issues or determine how challenges and priorities may have shifted. Certainly, the Foundation cannot address all issues at once, but it can have an impact by listening to the experts in the field and capitalizing on their frontline experience by selecting issues most pressing to them, providing them with information and tools, and soliciting their active participation in improving them.

## **Promote Best Practices**

The Foundation should develop Best Practices Case Studies that address the major barriers facing successful affordable housing production in the nation. The alumni network could be used to identify cases, refine the messages and make this information broadly available through the Foundation's KnowledgePlex. For example, where coalitions have been successful in acquiring resources or focusing a policy agenda, develop an in-depth analysis of the collaboration to guide appropriate instances of replication. Perhaps one of the issues above can be selected for the first case study; the experience of developing and refining the case study and associated tools will test and refine the full and productive deployment of the alumni network.

## **Provide Access to Targeted Expertise**

The Foundation could use the alumni network to foster and identify experts and leaders to share their solutions/methods to the challenges facing affordable housing. These experts could be used to provide written materials for the KnowledgePlex and could present information at the next Issues Forums or other appropriate forums such as conferences or large gatherings of community-based developers and their partners.

## **Streamline the Collection of Data**

The Foundation can help practitioners think through what, why, and how data should be measured in determining the needs and value of affordable housing. To the extent that national data is available that makes the case, the Foundation can develop materials which might be used on a broad scale with local impact. In cases where data is not readily available, the Foundation could help facilitate the development of a reasonable and cost-effective method for practitioners to acquire or analyze data within their markets. The collection of local data is difficult and time-intensive; the Foundation should consider developing a template for analyzing the housing needs within communities and a way to measure the positive impacts of the development of affordable housing.

## Conclusion

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The Foundation's efforts will help build and sustain a network of knowledge products and a core of community development leaders that will address housing challenges across the nation. The Foundation, through its capable research arm, has already played a key leadership role in developing and disseminating practical information to community development leaders. In addition, some of the issues raised at the Forums are already the subject of Foundation research initiatives. The results of the Forums clearly show the value participants attach to the Foundation's Knowledge Access Strategy and the hopes they have for it. The Forums and the alumni network of leaders organized from them can help inform the Foundation's agenda.

The Joint Center strongly endorses the Foundation's efforts to isolate root housing issues and to develop useful strategies to address these challenges. To the extent that the Joint Center can be helpful, it would like to support the Foundation's efforts in any way possible. In fact, the findings of the issues forums will have an impact on the Joint Center's own research and initiatives; it is hoped that continued interactions with the Foundation's alumni network will further mold and refine Joint Center direction.



## APPENDIX A

### Issues Forum

Convened by  
**The Fannie Mae Foundation**  
in partnership with the  
**Joint Center for Housing Studies, Harvard University**

**November 13, 2000**  
**New York City, New York**

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### Introduction

The Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University are convening a series of Issues Forums to implement the Foundation's new Knowledge Access strategy. The Foundation's goal is to talk with those who are creating and implementing housing policy and programs in order to identify issues and problems and, in turn, create and disseminate useful knowledge and information to practitioners and policymakers. The Issues Forums are also designed to serve as the basis for an ongoing, long-term dialogue among leaders around the country. The forums, and the Knowledge Access program, use the alumni of the Foundation's Fellows Programs, including participants in the Kennedy School of Government's Program for Senior Executives in State and Local Government, as a core leadership network.

Five such forums are being held around the country. The first took place in New York City on November 13, 2000. It was moderated by the director of the Joint Center for Housing Studies, Nicolas P. Retsinas. Attendees included seven representatives of local, nonprofit, community-based development organizations in the Northeast, five local government officials from the same region, three representatives of Fannie Mae's national and regional partnership offices, and one representative of a foundation. A complete list of participants is attached.

The agenda for the Issues Forum opened with an informal but in-depth discussion of the Joint Centers' annual report *The State of the Nation's Housing*. Released in June 2000, the report assesses how national trends track with what local nonprofit organizations and government agencies are experiencing in their communities. The report's conclusions

were used to generate discussion and comment on the ways in which regional and local developments may mirror or diverge from national trends.

Participants also discussed the possible effects of these and other trends in their communities. The day-long session concluded with an exercise in which participants identified trends particular to their regions that could affect their work in the next two-to-five years, examples of how they could measure these trends, and indicators they could use to conduct these measurements.

## Reactions to Research Findings

After welcoming remarks from Andrew Plepler, senior vice president, and Laura McGrath, director of community initiatives, for The Fannie Mae Foundation, the Joint Center for Housing Studies' director, Nicolas Retsinas, gave a brief overview of the findings of *The State of the Nation's Housing 2000*. Among the trends he noted were the following:

- ❑ The sustained and unprecedented level of prosperity being experienced by Americans in the last decade, and the changing face of the New Economy, with its dominance by computer companies and large retail chains;
- ❑ A housing market distinguished by:
  - ❑ Bigger homes being built for smaller-sized families;
  - ❑ Far fewer starter homes than in the past;
  - ❑ A robust level of housing starts, relatively unaffected by hikes in interest rates;
  - ❑ Substantial growth in population, especially in the South and the West, that add significant numbers of homes to existing stock;
  - ❑ Continued migration out of cities on the part of both people and jobs; and
  - ❑ A higher than ever rate of home ownership nationally (67.7 percent).
- ❑ Demographic changes that include:
  - ❑ During the 1990s, the second highest level of legal immigration in the history of the U.S.;

- An aging baby boomer population that will boost the demand for amenity-rich homes and second homes while it adds increased pressure on the Social Security and Medicare systems; and
- Young adults who will give a modest lift to the markets for manufactured housing, starter homes and rental units.
- A housing affordability crisis caused by multiple factors, that results in record numbers of very low-income households devoting more than half their incomes for housing.

Despite prosperity and growth, Retsinas noted disparities that persist in housing availability and affordability. Especially of concern is the home-ownership rate, which for whites is 73 percent but for minorities is only 47.5 percent. “Even with everything working for us in every way, the gap between whites and nonwhites has decreased by only 1 percent since 1994,” he said.

Participants responded to this overview by:

- Expressing concern about what might happen in the event of a downturn in the economy, especially for vulnerable populations such as immigrants, minorities and the elderly;
- Decrying the lack of a governmental response, especially at the national level, to serious and persistent housing issues;
- Expressing great interest in learning more about the research being done by the Joint Center on the effect of the Community Reinvestment Act and on results of its upcoming symposium on whether home ownership is an asset-building strategy;
- Expressing great concern about the subprime lending market and whether they are serving residents who could qualify for conventional mortgages, and the effect of predatory lending on their communities.

## Counteracting Negative Trends

During the second half of the forum, participants divided into three smaller groups based on their particular locations (one group representing New York, one representing points east and north of the city, and one representing points south and west of the city). They discussed among themselves the major trends they see affecting their efforts to revitalize communities in the coming years, and ways they might measure the indicators of fluctuations in these trends.

In reporting out after these discussions, participants identified a number of trends that need to be monitored, and indicators that might be measured to secure relevant data.

- In New Jersey and Pennsylvania:
  - A. Aging, of housing stock and of population, that could lead to higher numbers of abandoned or investor-owned properties and large population losses;
  - B. An increase in low-income homeowners, who might not have the ability to maintain their homes or their mortgages;
  - C. A changing and diminishing economic base, with more service jobs and high-tech jobs that result in an “hourglass” economy that has huge income disparities.

Other concerns raised by this group include the anticipated negative effect of lead-based paint regulations, which one participant said “might decrease by 40 to 50 percent what we have available in funds for affordable housing.”

*Indicators* of each of these trends include:

- A. A review of permits granted for remodeling, repairs and demolition;
- B. An examination of GSE purchases and HMDA data (that could show increasing numbers of low-income owners); and
- C. Changes in the tax base and in rates of commerce.



- In Connecticut, *trends* include:
  - A. Aging housing stock, with more than 6,000 state-assisted housing units forty years or older being taken out of the affordable market and possibly replaced by higher-income housing;
  - B. A serious affordability issue for lower-income people, with a high median income (\$105,000) helping housing costs to skyrocket;
  - C. An aging population, with 30 percent of residents being 65 years or older in the next ten years, resulting in a strong need for low- and moderate-income assisted housing; and
  - D. A widening gap between “the haves and the have-nots,” especially in the inner cities.

*Indicators* include:

- A. The amount of investment being made by both the public and the private sectors in state-assisted housing stock (whose capital needs exceed \$250 million);
  - B. The number of affordable units being created for medium-income residents; and
  - C. The number of assisted-living units created for the elderly, and resources being put into an aging-in-place effort.
- In Massachusetts, *trends* noted include:
    - A. Gentrification of older neighborhoods, including all over the greater Boston area, that often doesn’t include a mix of families at different economic levels and that is resulting in displacement;
    - B. A decrease in investor-owners and an increase in owner-occupants, including large numbers of immigrant owners, which could result in a higher percentage of foreclosures;
    - C. An increase in the share of lending from unregulated mortgage companies and a decrease of lending from banks, that also might result in more foreclosures;

- D. A decrease in housing subsidies from the federal and state levels;
- E. Huge increases in the cost of construction caused by higher land costs and a shortage of skilled labor, among other factors; and
- F. An increase in homelessness, including among families.

*Indicators* include:

- A. The Census, housing prices (rents and sales), HMDA data, and retail activity;
- B. Federal and state budgets;
- C. The Dodge Report;
- D. The numbers of people moving into and out of homeless shelters.

➤ In New York City, trends include:

- A. A continuation of a high rate of immigration from other countries and in-migration from other parts of the U.S., especially as more private-sector jobs are generated;
- B. The limited potential of new development because of dwindling land availability, high costs, great demand and fewer subsidies;
- C. Increasingly higher housing costs, which is fueling a growing affordability gap.

The effect of these trends in the greater New York City area includes the lowest vacancy rate in many years, a high degree of school overcrowding, and a significant “doubling up” of families into single units.

*Indicators* of these trends include:

- A. Housing vacancy rates, immigration rates and school enrollment figures;
- B. City land-use maps that would show land availability; costs of land; and new permits issued;
- C. Housing affordability measures, such as the rent burden, rent stability and HUD Fair Market Rents.

Further discussion of these trends and indicators led participants to advocate for more studies on the longer-term success of affordable housing efforts, especially in the area of home ownership. In addition, it was suggested that, to advance the affordable-housing agenda, issues should be reframed as economic issues rather than as social issues.

A discussion of how these trends and indicators could resonate with the private sector and with local government officials led participants to suggest appealing to employers, since housing affects their ability to attract and retain workers, and to talk about how developing affordable housing affects the overall tax base.

The bottom line, as one participant put it, is that “we all need more government funding.” A participant from Pennsylvania pointed out that that state has “a billion dollar surplus, yet we can’t even get them to set aside \$20 million to a housing trust fund.”

“If we can’t get them to do it now, we have a crisis,” he said.

## **Conclusion**

This first of the Issues Forums of Fannie Mae Foundation’s Knowledge Access strategy resulted in an important discussion of national trends and the ways these and local trends affect efforts to build affordable housing and create viable, healthy neighborhoods. The results of this and future forums will be compiled so that some direction can be given to the Joint Center for Housing Studies and the Fannie Mae Foundation’s Knowledge Access strategy for future research and development efforts. Retsinas suggested that the forums might reconvene in the future, with additional guests who might be able to provide other insights into the issues of concern to community-based developers.

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**Participants in the Issues Forum  
New York**

***Community Development Corporations***

Thomas Callahan  
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## APPENDIX B

### Issues Forum

Convened by  
**The Fannie Mae Foundation**  
in partnership with the  
**Joint Center for Housing Studies, Harvard University**

**November 17, 2000**  
**New Orleans, Louisiana**

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### Introduction

During the Fall of 2000 the Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University convened a series of Regional Issues Forums to expand on the Foundation's new Knowledge Access strategy. The Foundation's goal is to talk with those who are creating and implementing housing policy and programs in order to identify issues and problems and, in turn, create and disseminate useful knowledge and information to practitioners and policymakers. The Issues Forums are also designed to serve as the basis for an ongoing dialogue among leaders around the country. The forums, and the Knowledge Access program, use the alumni of the Foundation's Fellows Programs, including participants in the Kennedy School of Government's Program for Senior Executives in State and Local Government, as a core leadership network.

The New Orleans forum was an abbreviated version of the forums held in New York and Chicago. Held during the Alumni Reunion of the KSG Program for Senior Executives in State and Local Government, this forum was a two-hour facilitated discussion rather than a daylong program.

Held in New Orleans on November 17, 2000, the forum was moderated by Nancy McArdle, research associate and project manager at the Joint Center for Housing Studies. Attendees included four representatives of local, nonprofit, community-based development organizations, one state government official, four county government officials, seven city

government officials, and several other alumni of the KSG Program. A partial list of participants is attached.

The Forum consisted of an informal dialogue sparked by McArdle's brief overview of the key findings of the Joint Centers' annual report, *The State of the Nation's Housing*. Released in June 2000, the report assesses national economic and demographic trends and how these trends affect housing affordability, homeownership, and housing markets.

Participants discussed the possible effects of national trends in their own communities. The discussion included an exercise in which participants identified challenges in their communities and the group was asked to brainstorm about possible solutions.

## **Challenges and Solutions**

The group identified the following challenges to affordability and community development:

- *Gentrification*: solutions that were suggested included linkage and Section 8 homeownership programs that would keep value with the residents.
- *High cost of urban construction*
- *Poor quality of inner city schools (drives families that can afford to move, out of cities)*: charter schools were suggested as a possible solution, though the group noted that charter schools with established reputations can lead back to gentrification.
- *Low-income homeownership that places owners at risk of losing homes*: the group proposed that a tax structure that creates a cushion for homeownership could be a solution.
- *Predatory lending*: the group was interested in finding out more about the impact of predatory lending and in seeing more data on it.
- *Lack of gap financing for rural homeownership*
- *Shift of HUD programs away from rental market*
- *Complexity of HUD regulations*: the consensus of the group was that outcomes should be the focus of HUD programs rather than rules, and that regulations should be simplified.



- *Imbalance of locations of housing and jobs*: the solutions proposed focused on involving the private sector and making a clear economic case (rather than social) for locating affordable housing near jobs. The group also noted the importance of living wage initiatives.

## **Consensus on Key Challenges**

In articulating the challenges above, the group returned to several of the challenges which seemed to be the most important or most difficult to overcome. These key challenges were:

- The high cost of building housing in cities
- The quality of the schools in cities
- The perception, and sometimes the reality, of HUD regulations as burdensome
- The trend towards gentrification in cities
- The challenge of creating healthy communities with appropriate housing that accommodates diversity

## **Conclusion**

The Alumni Forum resulted in an important, if abbreviated, discussion of national trends and the ways these and local trends affect efforts to build affordable housing and create viable, healthy neighborhoods. The results of this and future forums will be compiled so that some direction can be given to the Joint Center for Housing Studies and the Fannie Mae Foundation for future research and development efforts.

In addition, the issues and trends described by the forum participants will be revisited in a series of follow-up discussions, either by reconvening similar forums periodically or through the use of new technologies such as web-based dialogues and online forums. It is hoped that these efforts will build and sustain a network of knowledge and a core of community development leaders that will assist the Foundation in keeping pace with trends in communities around the nation as they occur.

The Foundation hopes to develop knowledge and resources and make them available through a variety of media, especially through the internet, that will respond directly to what the new leadership network reports is happening “on the ground.”

The issues noted at the Alumni forum will be compiled with the results of the other forums and will be reviewed next year in order to evaluate changes and shifts to the valuable ideas about “what works and what doesn’t.”

## **Participants in the Issues Forum New Orleans**

### ***Community Development Corporations***

Lorna Bourg  
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## APPENDIX C

### Issues Forum

Convened by  
**The Fannie Mae Foundation**  
in partnership with the  
**Joint Center for Housing Studies, Harvard University**

**November 20, 2000**  
**Chicago, Illinois**

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### Introduction

During the Fall of 2000 the Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University convened a series of Regional Issues Forums to expand on the Foundation's new Knowledge Access strategy. The Foundation's goal is to talk with those who are creating and implementing housing policy and programs in order to identify issues and problems and, in turn, create and disseminate useful knowledge and information to practitioners and policymakers. The Issues Forums are also designed to serve as the basis for an ongoing dialogue among leaders around the country. The forums, and the Knowledge Access program, use the alumni of the Foundation's Fellows Programs, including participants in the Kennedy School of Government's Program for Senior Executives in State and Local Government, as a core leadership network.

Five such forums are being held around the country. The third took place in Chicago on November 20, 2000. It was moderated by the executive director of the Joint Center for Housing Studies, Eric S. Belsky. Attendees included nine representatives of local, nonprofit, community-based development organizations in the Midwest, one representative from a community-based organization in the Southern U.S., four local government officials from the Midwest, five representatives of Fannie Mae's national and regional partnership offices, and three representatives of intermediary organizations. A complete list of participants is attached.

The Forum was structured around an informal but in-depth discussion of the Joint Centers' annual report, *The State of the Nation's Housing*. Released in June 2000, the report assesses how national trends track with what local nonprofit organizations and

government agencies are experiencing in their communities. The report's conclusions were used to generate discussion and comment on the ways in which regional and local developments may mirror or diverge from national trends.

Participants also discussed the possible effects of these and other trends in their communities. The day-long session concluded with an exercise in which participants identified trends and issues in their communities that could help to demonstrate “what works and what doesn't” in the creation of affordable housing and community economic development.

## **Defining the Issues**

After welcoming remarks from Polly Nyberg, Director, Midwest Region, for the Fannie Mae Foundation, Maria Balderas, Manager, Midwest Region, for the Fannie Mae Foundation, and Laura McGrath, director of community initiatives for the Fannie Mae Foundation, Eric Belsky gave a brief overview of the history and mission of the Joint Center and of the purpose of annual reporting on *The State of the Nation's Housing*.

Belsky then asked each forum participant to identify briefly a key housing issue affecting their community and/or their organization. Consistent themes were readily identified from among the lengthy list:

- The changing role of non-profits and issues related to non-profit capacity;
- The need for a “continuum of care” with regard to homeownership for low and moderate income populations;
- Lack of financial tools and subsidies for single-family rehab;
- Subprime and predatory lending;
- Incomes that are lagging growth in housing costs;
- Financial literacy;
- Complexity of the programs that exist, especially programs subject to government regulations;
- Difficulty of creating successful mixed income developments;
- Placing affordable housing where job growth is located.

The forum continued with a facilitated discussion structured around four major topics covered in *The State of the Nation's Housing: Homeownership, Decentralization and Sprawl, Rental Housing, and Demographics*. In each topic area, Belsky presented findings from the 2000 report as a context for the subsequent discussions.

### **Context: Homeownership**

Despite economic prosperity and growth, Belsky noted disparities that persist in housing availability and affordability. Especially of concern is the home-ownership rate, which for whites is 73 percent but for minorities is only 47.5 percent. In terms of where people buy homes, income segregation is less dramatic than the segregation of minorities in minority neighborhoods.

- In 2000 there are seven million more owners than 5 years ago in 1995.
- One-third of first-time buyers are now minorities.
- There is increased lending to younger people and to minorities.
- Housing is still the cornerstone of wealth for more people than are stocks.
- The median wealth for renters making less than \$20,000 is \$1000; for owners making less than \$20,000, median wealth is \$70,000.
- Increased lending and increased homeownership means more lower-income homeowners; this phenomenon has risks and benefits.

### **Reactions, Responses and Questions**

Reactions to the national homeownership trends clustered around a concern for low-income homeowners.

A community development director from North Carolina pointed out her state's high concentration of manufactured housing. Her concern focused on a sense that this type of housing does not build assets; her organization counsels against it. She noted that buyers choose manufactured housing for immediate gratification and the financing arrangements that allow them to buy furnished units and finance their furnishings and appliances for 30 years. She sees a lot of foreclosures. According to this non-profit executive director, in her area "The non-profit loan originators cannot compete with manufactured home lenders."

Other questions and concerns included:

- How to address the existing dilapidated housing that is all people can afford? Urgent need for more rehab loans.
- While income disparity is great, wealth disparities are even greater.
- The problem of deferred maintenance as people struggle to stay in home without capital for maintaining it. This affects housing stock overall in addition to individual families.
- The problem of predatory lending; low income families are pursued by lenders and get in over their heads. “It is a community impact issue,” and it’s already bad for current low-income owners – how much worse it will be when we have even more low-income owners?
- Financial literacy is important but “homeownership literacy” is equally important. One CDC spends \$2000 per family on counseling and covers not just how to get a mortgage, but what may come after the family is in the home.

## **Context: Decentralization and Sprawl**

The next important theme introduced was the impact of decentralization and “sprawl.” Belsky presented some of the report’s key findings in this area:

- ❑ The U.S. added 20% more jobs to low density counties of metro areas in last five years. Jobs are moving to low density areas.
- ❑ Jobs are moving out away from city cores faster than housing – many different kinds of jobs are growing more quickly on the suburban fringe.
- ❑ Decentralization is tough on cities. Cities may find it difficult to attract residents in a cultural environment of “get away from it all” where homeownership is perceived as best for all. Job growth in cities is weak.
- ❑ Non-profit organizations have an important role in issue of sprawl and ‘smart growth’, because what is growing in cities is the increased capacity of non-profits. Goals associated with ‘smart growth’ are some of the things CDCs have always been doing (mixed income, jobs & housing, affordability).



## **Reactions, Responses and Questions**

A community lending director from the Chicago area reported on a successful employer-sponsored housing project in Aspen, brings housing and jobs together. But she pointed out that the problem is that most suburban communities feel very threatened by non-profits, so it is actually essential to have employers as partners. In cases where this has worked it is because the project successfully makes the point that the workers being housed are people the community needs (e.g. police, teachers, etc.). “These projects work where labor is scarce so employers are interested. They will do this out of enlightened self interest.”

Other comments focused on issues associated with gentrification and other barriers to affordable housing in cities:

- As middle income white people leave cities for outer rings, inner city gentrification is also taking place; yuppies displacing low income populations. Middle city communities become more low income, pushing middle income people out. There is a “constant cauldron” of populations pushing each other out.
- Huge number of units added in downtown market (gentrified lofts, etc) has caused middle class people to “leapfrog” out to outer ring.

## **Context: Rental Housing**

With regard to rental housing, *The State of the Nation’s Housing: 2000* found that:

- ❑ There are an increasing number of households spending more than half their income on rent.
- ❑ Even people working full-time jobs can end up spending too much on rent. Preservation of subsidized stock is critical.
- ❑ There is a critical loss of units through opt-outs of tax credit programs
- ❑ Public housing demolitions are having negative impact on numbers of available units. 7,000 built and 28,000 demolished. 61,000 more slated to be torn down.

## **Reactions, Responses and Questions**

Comments focused on the difficulty of maintaining public interest and funding for construction and maintenance of subsidized rental housing:

- The cost of rehabilitation for units with lead-based paint is so high that the policy implications are severe: Rehab is considered too costly so demolition is the default course of action.
- States may choose to use block grant funds for infrastructure not housing because rehab cost for each unit is so high, with abatements, health and safety issues and codes.

## **Context: Demographics**

The final major theme to be presented was the impact of demographic shifts on housing availability and housing demand, and the dramatic changes that are taking place as a result of the aging of the Baby Boom generation and the steady pace of immigration:

- ❑ 12 million households will be added annually this decade. We are experiencing a flatline on household growth but will need 16 million new homes built this decade.
- ❑ There is a strong population shift to the South and West
- ❑ Age distribution will have a large impact on housing demand. The baby boom generation will generate more trade-up demand.
- ❑ Aging households will need amenities. This is starting to be a big story now because parents of the baby boom generation are seniors.
- ❑ The majority of seniors age in place. More than half of homeowners in their 70's bought their homes before turning 50. This will generate a rising demand for modifications to existing homes to accommodate amenities and services.
- ❑ Assisted living and congregate care are currently only utilized by wealthy households. The question of how to make these housing options for seniors available more widely across the income distribution will be a large looming issue for the baby boom generation.
- ❑ The children of the baby boom along with huge waves of immigration are having large impact on household growth.
- ❑ We have seen a rise in demand for rental and manufactured housing because the generation currently forming households has lower incomes compared to previous generations.

- The impact of immigration is enormous. It accounts for ¼ household growth of last ten years. If not for immigration, there would be NO growth in households in Northeast; there would be a decline.

**Reactions, responses and questions** on the demographic findings were deferred so that the forum participants could move directly into small discussion groups, with the opportunity to comment on demographics during these sessions.

### **Discussion Groups: What's Working?**

During the second half of the forum, participants divided into three smaller groups based on their particular locations (one group representing Chicago, one representing other smaller cities and one representing rural midwestern areas). They discussed among themselves the major trends they see affecting their efforts to revitalize communities in the coming years, and strategies for combating negative trends while capitalizing on positive trends.

In reporting out after these discussions, participants identified a number of indicators of success as well as barriers that seem to be holding back communities' capacity to address critical housing and economic development needs.

Belsky asked each working group to contribute 4-5 key issues, trends, problems and/or opportunities, and to consider the following questions:

- What is being done now about these trends? What works?
- How do you know what works?
- What do we need to know?
- What isn't happening that should? What is holding things back?

### **Rural Communities: Issues and Trends**

The first group to report back represented rural communities from several midwestern states.

One community lending officer reported on a successful statewide alliance, in Minnesota, to create awareness of housing affordability issues. She shared examples of

public relations materials that were used in this statewide campaign to change the negative public perception of public housing.

Other strategies that this group found useful included:

- Public and private sector cooperation for employer-assisted housing
- Changes in the regulations governing CRA lending

This group noted a number of barriers to successful housing programs and other trends that indicate that “things are not working”:

- Soft second mortgages have long forgiveness and no wealth creation.
- The sustainability of non-profit organizations is always at issue.
- There are frequently negative perceptions of affordable housing.
- Coordination among agencies is cumbersome and difficult.
- It is difficult for rural communities to attract and retain skilled workers (e.g. teachers, housing professionals, etc.)
- Organizations and municipalities sometimes suffer from a lack of compatible resources.
- It is difficult to sustain infrastructure in rural areas (e.g. water & sewer services) that are experiencing depopulation.
- Capacity is a huge problem for housing organizations and other non-profits in rural areas. Training opportunities (both formal and peer-to-peer) are extremely limited. One non-profit executive commented, “From a rural area, for training, you have to travel somewhere, it costs too much, it lasts three days, people can’t remember it long-term, and once they are trained, they go to work in for-profit enterprises.”

### **Chicago: Issues and Trends**

The second discussion group was made up of Chicago-based community development, non-profit, and foundation professionals. They reported back first with a description of a large-scale collaboration among various stakeholders concerned with housing and affordability in the city of Chicago.

Non-profit and foundation partnerships are working in the city of Chicago; there is a five-year housing plan that also includes some suburban jurisdictions. The Chicago

Forum on Housing Solutions has convened stakeholders to work on a regional information infrastructure for affordable housing. This collaboration involves business, community development, and the philanthropic sector. Some group members reported that they had seen alliances fail when the business, private sector side failed, but the group concluded that the partnerships were better positioned to seek out additional resources than were any of the individual organizations alone.

The Chicago group also listed a series of trends in the “what’s working” category:

- New markets are being created in the city; this could also be called gentrification.
- There is more leveraging of community resources to create enterprise and grow value (surplus retention).
- There is a healthy and strong non-profit community characterized by strong leadership.
- Organizations have learned to negotiate what the community wants BEFORE seeking funding, thereby avoiding politics in getting funded.

The group found the following key challenges remaining:

- Getting people to think of affordable housing as an asset
- Growing leadership capacity

The Chicago group reported that there are some critical barriers to affordability that they characterized as examples of strategies that “don’t work”:

- The complexity of financing deals creates obstacles; it can add costs and creates uncertainty.
- One group member commented on the disjunction between the kind of development city dwellers say they want and the kind of development that will actually be supported: “In the regional marketplace big box development is favored. We are in an urban environment where people say they want mixed use development but acquiring land and financing is a huge challenge.”

Finally, this group suggested a critical opportunity for the affordable housing community in the revitalization of public housing. Public housing is both a challenge and

an opportunity that requires focused attention. Currently public housing is isolated from the city grid and the group concluded that it is necessary to re-connect it with the city both physically and socially.

### **Midwestern Cities: Issues and Trends**

The third discussion group was comprised of community development and housing practitioners from smaller midwestern cities including Milwaukee, Columbus, and Indianapolis.

This group focused on issues and trends that may be creating barriers to the successful creation of affordable housing and community economic development. Their list of concerns focused primarily on lending practices and the risks and benefits of low-income homeownership:

- Lending to minorities is a complex issue in these cities. Local populations seem to be losing out because lenders are focusing on the new immigrants in how they package products. Native born minorities are not being sought to the same extent.
- Predatory lending is a huge problem in these cities and there is a need for resources to provide education regarding predatory lending.
- With predatory lenders a major force, the housing community must work to protect owners' equity and protect against fraud and unethical practices.
- The group framed these lending trends as part of the large-scale consolidation of industry – banks are national so not subject to local laws; big national banks buying up subprime lenders.

In bringing up the issues surrounding the risks and rewards of low-income homeownership, one group member commented, “ I have to ask myself the question – should I always be promoting homeownership? Where? When?” The group also cited the following concerns:

- Homeownership counseling is critical for low-income populations in these cities, and the counseling needs to continue to support and empower people after they are in the home.

- The group expressed concern about how to help people who ARE prepared for homeownership to find a home in a place they can live and work? Some non-profit boards, along with their communities, want to keep poor homeowners concentrated in central cities.
- Low-income homeowners already experience high rates of foreclosure. If the economy slows, things may get much worse. One member suggested, “A foreclosure hurts the family that loses their home but it also hurts the other people on the street or in the neighborhood who see their values/assets diminished.”

In conclusion, this group noted that in their cities the kinds of alliances that have worked elsewhere have not been as successful: “How do we get the private sector into this whole process? The alliances that haven’t worked have failed because the private sector is not at the table. That private dollar needs to come in to keep the subsidy from being so deep.” They also suggested using “workforce housing” in place of “affordable housing,” because of the longstanding negative associations of the traditional term.

## **Conclusion**

The Chicago Issues Forum resulted in an important discussion of national trends and the ways these and local trends affect efforts to build affordable housing and create viable, healthy neighborhoods. The results of this and future forums will be compiled so that some direction can be given to the Joint Center for Housing Studies and the Fannie Mae Foundation for future research and development efforts.

In addition, the issues and trends described by the forum participants will be revisited in a series of follow-up discussions, either by reconvening similar forums periodically or through the use of new technologies such as web-based dialogues and online forums. It is hoped that these efforts will build and sustain a network of knowledge and a core of community development leaders that will assist the Foundation in keeping pace with trends in communities around the nation as they occur.

The Foundation hopes to develop knowledge and resources and make them available through a variety of media, especially through the internet, that will respond directly to what the new leadership network reports is happening “on the ground.” The

issues noted at the Chicago forum, and the other forums this year, will be reviewed next year in order to evaluate changes and shifts to the valuable ideas about “what works and what doesn’t.”



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## APPENDIX D

### Issues Forum

Convened by  
**The Fannie Mae Foundation**  
in partnership with the  
**Joint Center for Housing Studies, Harvard University**

**January 11, 2001**  
**Los Angeles, California**

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### Introduction

During the fall and winter of 2000-2001, the Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University convened a series of regional Issues Forums as part of the Foundation's new Knowledge Access strategy. The forums' goals are to talk with practitioners, local government officials, staff of intermediary organizations and others who create and implement housing policy and programs in order to identify barriers to success in the field. In turn, the Foundation intends to create and disseminate useful information to practitioners and policymakers that will help overcome these barriers.

The Issues Forums will also serve as the basis for an ongoing dialogue among community-development leaders around the country. The forums, and the Knowledge Access program, use the alumni of the Foundation's Fellows programs, including participants in the Kennedy School of Government's Program for Senior Executives in State and Local Government, the James A. Johnson Fellows and the Maxwell Award winners, as a core leadership network.

Five such forums are being held around the country. The fourth took place in Los Angeles at the Japanese American National Museum on January 11, 2001. It was moderated by the executive director of the Joint Center for Housing Studies at Harvard, Eric S. Belsky. Attendees included:

- Ten representatives of local, nonprofit, community-based development organizations in California and Portland, Ore.;

- One local government official;
- One representative of an intermediary organization (LISC);
- Two representatives of colleges and universities; and
- Two representatives of Fannie Mae’s national and regional partnership offices.

A complete list of participants is attached.

The Forum was structured around an informal but in-depth discussion of the Joint Centers annual report, *The State of the Nation’s Housing*. Released in June 2000, the report assesses how national trends track with what local nonprofit organizations and government agencies are experiencing in their communities. The report’s conclusions were used to generate discussion and comment on the ways in which regional and local developments may mirror or diverge from national trends.

Participants also discussed the possible effects of these and other trends in their communities. The day-long session concluded with an exercise in which participants identified trends and issues in their communities that could help to demonstrate “what works and what doesn’t” in the creation of affordable housing and community economic development.

## **Defining the Issues**

After welcoming remarks from Vera de Vera, director of the Fannie Mae Foundation’s Western region, and Laura McGrath, director of community initiatives for the Foundation, participants introduced themselves and also introduced particular areas of concern facing them as organizations and as agents of change in a particularly hot housing market.

Among the issues raised were:

- The increasingly high cost of housing in nearly all communities in California, and in Portland;
- The tension around issues of land use and growth management, especially in areas where schools are needed, where there are environmental issues of concern (including Brownfields), and where transportation problems abound

(including too much traffic, too few public transportation options, jobs not being where lower-income people live, etc.);

- Coalition-building as a strategy for dealing with complex issues;
- Gentrification – specifically, how difficult it is to keep a revitalized, lower-income community in the hands of low-income people;
- Subprime and predatory lending;
- Language barriers, and specifically the need for more bilingual home-ownership counseling;
- Concern for special populations, including at-risk youth as “an invisible homeless group,” incarcerated people who have no resources once their sentences have been served, foster-care families and children, and mothers with infants;
- The dearth of affordable multifamily housing and of subsidies and strategies for increasing this housing stock; and
- The need for capacity building of community development organizations.

Themes that emerged from the introductory remarks of the participants included:

- The difficulty of revitalizing communities and providing affordable housing in the face of rising costs and competition for land;
- Lending issues and the need for subsidies or other strategies that can make financing of housing more affordable for lower-income people; and
- The need to reach special populations, including bilingual residents who come from all parts of the world.

After summarizing the concerns he heard during the introductions, Eric Belsky then gave a broad overview of the findings contained in *The State of the Nation's Housing* and discovered as a result of other research. The points Belsky made fell into several topic areas:

- ❑ The economy and home ownership;
- ❑ The preservation of rental housing; and

- Demographics (including immigration and its affect on communities).

In the breakout sessions that followed this overview, participants brought up many additional issues, concerns and possible solutions to the challenges they face in providing affordable housing to low- and moderate-income families.

## **The Overview**

### **The Economy and Home Ownership**

Belsky began by discussing the nation's unprecedented strong economy and the positive effect this has had on many aspects of American life.

Within the context of this strong economy, the following positive effects were noted:

- Income growth has never been better, especially among African Americans, where its rate exceeded that of whites;
- Home ownership is on the rise, with 7 million new owners having been added between 1994 and 1999;
- Minority home ownership now represents one-third of first-time buyers;
- The lending community "has gotten the message that minorities are an emerging market" and are making a greater effort to reach this market; and
- Home ownership is still the cornerstone of wealth, much more evenly distributed than stock ownership or other measures of prosperity.

However, on the negative side,

- There is still an enormous gap, of 25 percentage points, between whites and nonwhites who own their homes;
- Housing costs are outstripping income growth, leading more and more owners to spend 50 percent or more on their housing costs (as has long been true for many low-income renters);
- People are piling up debt onto their homes by rolling debt into their housing payments; predatory lenders are especially active in this refinancing market,

operating disproportionately in low-income and minority neighborhoods, to the detriment of the owners and often leading to foreclosures;

- Following in the footsteps of more moderate-income families, 80 percent of lower-income families are choosing to purchase homes outside of low-income neighborhoods (60 percent are buying into middle-income neighborhoods and 20 percent into higher-income neighborhoods). This means that the stabilizing effect on neighborhoods that has come to be expected of efforts to promote home ownership to this income group is not being achieved;
- As more minorities and lower-income families move into these even slightly wealthier communities, whites stop buying there and many flee the area;
- Even though home ownership and housing affordability is an important story, it gets little or no attention at the national level;
- The “smart growth” movement is an emerging issue for affordable housing developers, since where development is permitted affects the ability to access jobs, and often affordable housing is not part of the mix in development that is approved.

### **The Preservation of Rental Housing**

Belsky pointed out that, nationwide, rents have been escalating. More than 5.4 million

Lower-income renters are paying more than 50 percent of their income on rent. This is close to one in twenty of all households.

Equally distressing is that “subsidized housing is contracting.” Owners of Section 8 housing are opting out of the program, and families with Section 8 vouchers often have to return them because they can’t find a landlord who will accept them. About 28,000 units of federally subsidized housing have been eliminated, replaced by only 7,000 units. Although there is no data to show just how many families need subsidized housing, anecdotal evidence (such as when local Housing Authorities open up their lists and many thousands of people respond) and current waiting lists indicate that the need is great.

## **Demographics**

Belsky noted that there is rapid growth in the 45 to 64 age range, which will most likely lead to more and greater gains in home ownership within this age group. Home ownership will also increase for those under age 35. The proportion of people who are minorities is growing, and by 2010, minorities will be in the majority in the United States in some large states.

Ten years from now, the “echo baby boom” in their teens and early twenties will represent one in ten owners and four in ten renters. This will be an even more diverse generation that won’t have the same levels of education as the previous generation, which will lead to a lot of issues, especially regarding income and the ability to purchase a home. Right now, incomes in the 20 to 29 age groups are lagging behind where their parents were at their age.

Immigration is a huge story nationally, as it accounts for a quarter of recent household growth. The sheer diversity of new immigrants means that their needs have to be met in many different ways. As Belsky said, “The reality defies all the stereotypes.” The extent to which immigrants can completely change a neighborhood makes for stresses and tensions that must then be taken into consideration by community based developers.

Senior housing will continue to be a serious issue, especially as baby boomers age. Ninety percent of seniors living outside of nursing homes live in regular households. One question is: how do you meet the demand for senior services where seniors live, and how can seniors on fixed incomes afford to maintain their quality of life as both they, and their housing, age?

Race is still a fundamental issue, as is class, with the two overlapping in the general context of community change and home ownership.

## **Reactions, Responses and Questions**

As Belsky concluded his overview, a wide-ranging discussion ensued.

- One community developer noted that, with a large number of people purchasing outside of cities, a “hole in the donut” is happening. She wondered what this says about the future of cities.



Belsky noted that empty nesters are not coming back to the city, as had been anticipated. Those ages 55 to 64 are still moving out, although resistance to growth in suburban and exurban areas might put such a premium on land, that cities might benefit. Although there is a lot of building going on, much of it is in the higher-income market, and many inner-city units are being lost to abandonment.

- A local government official feared a collision course between proposed tax cuts and community developers' needs for federal resources. Belsky commented on the "fiscal austerity that has been a legacy of the last ten years" and noted that current surpluses have a lot of demands on them. "This makes for a very cloudy picture," he said.
- An analyst from Portland noted that foreclosures have doubled there in the last year. Belsky observed that there is little dependable data about the subprime lending market, which constitutes a large part of the refinancing market but a small proportion of the home-purchase market. About 46 percent of these refinances occur in low-income minority communities, however, and only 18 percent are in predominantly white communities – underscoring the predatory nature of some subprime lending and its relationship to foreclosures. One participant commented that some nonprofits are putting riders on the mortgages they make stipulating that their clients can't take out a second loan without the nonprofit signing off on it. This is apparently true for some Habitat for Humanity affiliates. "People would be paying 14 to 15 percent on a loan that they now pay nothing on" without this caveat, she noted.
- There was much discussion about how far people live from where they work, and the willingness of middle- and upper-income people to commute long distances. Belsky noted that Federal Reserve Board Chairman Alan Greenspan is "nervous about the high home-ownership rate because it affects people's ability to respond to changes in the job market." People are willing to commute in part because of the high transaction costs of moving, especially in Realtor costs.

- Several community developers wondered how more subsidies could be put in place, especially to assist with the development of multifamily housing. One commented on “the lack of innovative financing mechanisms” for multifamily structures.

## **Discussion Groups: What’s Working?**

During the second half of the forum, participants divided into four smaller groups to discuss among themselves the major trends they see affecting their efforts to revitalize communities in the coming years, and strategies for combating negative trends while capitalizing on positive trends.

Belsky asked each working group to contribute four to five key issues, trends, problems and/or opportunities, and to consider the following questions:

- What are the four or five most pressing issues or opportunities in your communities that you will need to address in the next two to five years?
- Briefly, what are your organizations doing to address them?
- Are you monitoring these efforts and, if so, how?

### **Group A: Land, Credit, Income and Low Visibility**

The first group identified four major problems:

1. Limited development opportunities due to the high cost of and shortage of land;
2. Credit problems on the part of potential clients, and the lack of a funding stream for credit counseling and homebuyer education services;
3. The gap between income and the cost of housing; and
4. That affordable housing is not on anybody’s radar screen.

The need to form coalitions was seen as key to resolving issues one, three and four:

- Coalitions to look at land-use policies and see that affordable housing is considered in discussions about growth and development;
- Coalitions with faith-based organizations, lenders and other businesspeople to create jobs where lower-income people live and/or to make transportation available to them so that they can access jobs in the outer rings of cities where it might be

possible to make a living wage. Employer-assisted housing was also mentioned as a strategy, although Belsky noted that “it takes an awfully motivated business community to do it”; and

- Coalitions perhaps around regional housing issues.

Regarding the issue of credit repair and counseling, one solution is to get for-profits and others that offer credit counseling and homebuyer education to admit that their services are often inadequate and see the benefit of helping to create the infrastructure necessary for affordable-housing developers to do the thorough job necessary to prepare residents for ownership.

### **Group B: Education and Jobs, Brownfields and Organizational Capacity**

Issues of concern to the second group of participants include:

1. Education and jobs – specifically, the need to make sure that education prepares populations with special needs (including immigrants and transient populations) in ways that make them employable;
2. Brownfields and other environmentally contaminated properties (and the need to get some of them taken off the EPA’s Superfund list); and
3. The sustaining of organizational capacity of local nonprofits.

Solutions once again focused on coalition building: with school systems, environmentalists and stakeholders who have an interest in the work of community-based developers.

Belsky noted that there is a “whole concept brewing among foundations and businesspeople to get away from program funding and instead fund nonprofits as if they were a business.”

“You get loan capital but also develop relationships that sustain organizational capacity. Then you don’t need to explain every single project you do,” he said.

## **Group C: Land Use, Capacity and Capital, Fickle Foundations and Gentrification**

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The third group's concerns were similar to the previous two:

1. Land use;
2. The need for capacity and capital;
3. The challenge of getting foundations to be trend-focused;
4. The challenge of creating stable, mixed-use communities that retain affordability and resist gentrification.

Regarding land use, participants noted that nonprofit organizations are often pitted against one another in the quest for property upon which to build affordable housing; a subchallenge is to educate people in the community to think about affordable housing in the context of land use and overall development. One solution is to make the focus regional. A consortium of nonprofits and others in Portland created the Community Development Network of Portland, staffed by a self-described “policy wonk” who sits in on meetings where land use is discussed and can “go in and argue policy, and then it doesn't affect when they [individual organizations] come in the next day and ask for money.”

Regarding foundations, it was noted that, in general, “they don't want to fund housing” and “they expect you to become self-sufficient.” When Belsky suggested counteracting the “fickle foundation” phenomenon by finding their “hot spots” and “repackaging yourself to them,” one participant commented on the high cost of “having to repackage yourself every few years.”

It was suggested that Fannie Mae, Freddie Mac and the Federal Home Loan Bank system work together to make more capital available to affordable-housing developers.

Gentrification was generally acknowledged to be a puzzling problem for many participants. One solution mentioned is for there to be “regulatory tools” that might guarantee affordability.

## **Group D: Capital, Land Use, Income and Preservation**

The final group created an acronym for its concerns – CLIP:

1. Capital;
2. Land Use;
3. Income; and
4. Preservation.

The group saw all of these as interrelated.

- There seems to be little capital available from financial institutions for five-to-50 unit properties, which is what is most needed in lower-income communities; owners of two-to-10 unit properties are often individuals, who aren't aware of federal programs that can help them maintain this housing stock;
- Land use issues get at the competitiveness that surrounds the building of new affordable housing;
- The gap between income levels is ever widening. As one participant said, "Everything is going up 4 percent, but 4 percent of what? A \$100,000 house or a \$20,000 house?" In high-cost markets, increases in property values hurt lower-income buyers the most. (Ron Garcia of Fannie Mae mentioned that 65 percent of the homeless in Orange County, Calif., are working); and
- Preservation of the existing stock of affordable housing, especially rental units, must happen before it can really be increased.

It was generally agreed by members of this group and others that good data collection will be necessary to convince policymakers, lenders and others of the seriousness of the affordable-housing problem. Among those mentioned to be tracking accessible data on housing and other issues are:

- Some regional governments;
- Neighborhood Knowledge Los Angeles, a Web site at UCLA funded by HUD;
- UCSB, which created San Diego Dialogue; and
- Others (such as utilities, which track shut-offs due to lack of payment, and school systems that track free-and-reduced-lunch programs, which are indicators poverty).

## **Summary and Next Steps**

Belsky noted that the issues raised by the four groups were fairly consistent, among one another and also among issues raised in other parts of the country. “Housing is not an end in itself,” he said. “We have to be concerned about people and their relationship to credit; we have to worry about job creation, livable wages and the working poor. High costs and land use are very linked in people’s minds, especially in a place like California, where there’s such a mismatch between what housing costs and what people can afford to pay.”

He did note that while predatory lending came up in the general opening discussion, it was not listed as a defining issue during the breakout sessions.

Belsky concluded by reminding the participants that the goal of the Issues Forums is to create useful information around the issues raised and make it available to practitioners and policymakers in the most useful forms possible (including in an interactive way over the Internet). He said to expect such results in the near future.

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## APPENDIX E

### Issues Forum

Convened by  
**The Fannie Mae Foundation**  
in partnership with the  
**Joint Center for Housing Studies, Harvard University**

**January 26, 2001**  
**Atlanta, Georgia**

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### Introduction

The Fannie Mae Foundation and the Joint Center for Housing Studies of Harvard University continued its series of regional Issues Forums by convening its fifth forum at the Fannie Mae Foundation's southeastern regional office in Atlanta, Georgia, on January 26, 2001.

The session was moderated by the executive director of the Joint Center for Housing Studies at Harvard, Eric S. Belsky, with welcoming remarks made by Fred Wacker, director of the southeastern regional office, and Laura McGrath, director of community initiatives at the Fannie Mae Foundation in Washington, D.C.

Attendees included:

- eight representatives of local, nonprofit, community-based development organizations (or associations of CDCs) located in Georgia, Florida, Mississippi, Tennessee and South Carolina;
- two local government officials;
- one representative of a Housing Authority;
- one representative of the Federal Home Loan Bank of Atlanta;
- one representative of an intermediary organization (The Enterprise Foundation);
- one private-sector consultant;

- two representatives of a foundation; and
- five representatives of Fannie Mae’s national and regional partnership offices.

A complete list of participants is attached.

As with previous forums, an informal but in-depth discussion around the results found in the Joint Centers’ annual report, *The State of the Nation’s Housing*, was held. Released in June 2000, the report assesses how national trends track with what local nonprofit organizations and government agencies are experiencing in their communities.

The day-long session concluded with an exercise in which participants identified trends and issues in their communities that could help to demonstrate “what works and what doesn’t” in the creation of affordable housing and community economic development.

## **Defining the Issues**

As participants introduced themselves, they also introduced specific areas of concern facing them as organizations and as agents of change in their communities

Among the issues raised were:

- The increasingly high cost of housing compared to the slower growth of income;
- The tension around issues of land use and growth management;
- Gentrification and the need for strategies to improve neighborhoods without inviting gentrification;
- Subprime and predatory lending;
- Concern for special populations, especially the elderly and people with disabilities;
- The need for more affordable multifamily housing and for subsidies and strategies that could increase this housing stock;
- The need for capacity building of community development organizations;
- The challenges of dealing with bureaucracies, especially within local governments;

- The need to help elected officials understand housing and community-development issues so that they can support them with funding;
- How to get capital to put into existing buildings;
- Moving public housing residents into home ownership in a comprehensive and meaningful way;
- Helping foundations become more informed and better facilitators;
- How manufactured housing (which is purchased by 40 percent of new homeowners in the south) fits into the effort to provide affordable housing and to help residents accrue assets; and
- Abandoned, vacant and tax-foreclosed properties.

After summarizing the concerns he heard during the introductions, Eric Belsky then gave a broad overview of the findings contained in *The State of the Nation's Housing* and discovered as a result of other research. More than at other Issues Forums, participants immediately dug into the issues as they were raised, so that the conversation was very free flowing and punctuated by questions and answers. This is represented in the structure of the narrative that follows.

## **The Overview**

Belsky began by discussing the nation's unprecedented strong economy and the positive effect this has had on many aspects of American life.

- ❑ Income growth has never been better, especially among African Americans, where its rate exceeded that of whites;
- ❑ Home ownership is on the rise, with 7 million new owners having been added between 1994 and 1999;
- ❑ Minority home ownership now represents one-third of first-time buyers; and
- ❑ The lending community "has gotten the message that minorities are an emerging market" and are making a greater effort to reach this market (especially among Hispanics).

However, on the negative side,

- ❑ There is still an enormous gap between whites and nonwhites who own their homes;
- ❑ Housing costs are outstripping income growth, leading more and more owners to spend 50 percent or more on their housing;
- ❑ People are acquiring homes with less and less of a cushion and would be extremely vulnerable in the event of an economic downturn;
- ❑ The ability to retain a home is linked to the availability and affordability of other services, such as health care;
- ❑ Banks and thrifts have a strong presence in some communities but are replaced by subprime lending specialists in other communities;
- ❑ Predatory lenders are especially active in the refinancing market, operating disproportionately in low-income and minority neighborhoods:
  - ❑ In low-income minority communities, 46 percent of refinancing are made by subprime lending specialists;
  - ❑ in higher-income minority areas, this figure is 30 percent;
  - ❑ in lower-income white communities, however, only about 20 percent of re-fi loans are subprime, and
  - ❑ in higher-income white markets, this figure is only 6 percent.

One conclusion drawn is that many of these borrowers could qualify for a conventional loan and/or “ought to be counseled about what they’re getting into” before accepting a subprime loan;

- ❑ The “smart growth” movement is an emerging issue for affordable housing developers, since where development is permitted affects the ability to access jobs, and often affordable housing is not part of the mix in development that is approved.

When asked what practitioners and others could do to mitigate the risk of loss of lower-income clients’ homes, Belsky mentioned efforts by Fannie Mae, Neighborhood

Reinvestment Corporation and others to secure pools of soft-seconds, and noted that lenders are trying to be more creative about avoiding foreclosure.

Concern about “when the sky falls, it may fall on some people more than others” led Belsky to remind participants that when house prices collapsed there, people who don’t have any room for “forgiveness” got into trouble quickly. He noted that banks worry about negative equity positions, but only 4 percent of people in negative equity positions default on loans. Rather, job loss, divorce, and the need to pay for medical care for children were the most common reasons for default.

Belsky then talked about smart growth, decentralization and sprawl, noting that, although the last decade added 16 million homes to the nation’s housing stock, it is very hard to build in cities. There are now more vehicles than there are registered drivers, he said, but the smart-growth movement hasn’t been overly concerned about affordable housing. Unless resources can be found to provide affordability, it will be increasingly hard for even moderate-income households to purchase.

What this means to rental housing is that it’s under incredible pressure, Belsky said. Added to the loss of affordable, market-rate rental housing is the loss of subsidized stock. One participant noted that *The State of the Nation’s Housing* says that there are twenty-six million people income-eligible for public assistance for housing, but only about four million actually receive it. Belsky commented that HUD doesn’t have good data on the number of households in need; for example, there’s no accounting of vouchers returned because tenants couldn’t find a landlord to accept them. As the children of baby boomers reach young adulthood, the need for affordable housing is going to mount, which will put an additional strain on the rental housing market.

When asked if there might be a legislative fix to the subsidized-housing issue, Belsky said that the “federal government hasn’t ever been realistic about what it takes to create subsidized housing.” There is some interest in producing additional housing, but HUD has never had the resources needed to adequately maintain the stock it subsidizes.

With respect to special-needs populations, Belsky noted that there are huge disparities of income and living condition today within the senior population. Many are

not doing well financially on their fixed incomes and, not only do they become frail over time, many of them want to stay in their homes. This leads to issues of home maintenance and to an inability of the community to effectively reach this population with services.

One participant noted that, when it comes to seniors utilizing reverse mortgages, “the transfer of wealth gets to be a big issue ... with folks our age arguing with their parents because they basically lost their nest egg.”

Reverse mortgages are a very small percentage of all lending, Belsky noted, which was good because otherwise this population might really be “preyed upon.” In fact, many predatory lenders approach potential clients in the form of a contractor knocking on somebody’s door to talk about needed repairs.

Another participant asked whether CRA might be watered down during the new administration.

Belsky said it was not possible to know, but that many in the Clinton administration were aggressively examining CRA. “The right question is, is CRA adequate for what we now need to have regulated?” he said. He noted that the way the financial industry is structured now, it’s up to the discretion of a bank to report its subprime lending activity and have it not be officially a part of its CRA record.

There was considerable discussion about whether home ownership is really the right choice for lower-income families. Belsky pointed out that “home ownership has risks” and that “when you compare the costs of owning to renting, depending on your holding period, lots of time you come out ahead when you rent.” On a long-term basis, he said, houses appreciate only 1 percent above inflation. “The reason people make a lot of money is that they pay off their house and have a fixed housing cost,” he said.

There was general agreement that, even more important than promoting home ownership, there is a need to have healthy communities that combined single-family ownership with single-family rentals, apartments, co-ops and every other kind of housing possible.

## Discussion Groups: What's Working?

During the second half of the forum, participants divided into three smaller groups to discuss among themselves the major trends they see affecting their efforts to revitalize communities in the coming years.

Belsky asked each group to contribute four to five key issues, trends, problems and/or opportunities, and to consider the following questions:

- What are the four or five most pressing issues or opportunities in your communities that you will need to address in the next two to five years?
- Briefly, what are your organizations doing to address them?
- Are you monitoring these efforts and, if so, how?

### **Group A: Affordability, Process, Capacity, Financial Literacy, and Policy**

The first group identified five needs and issues:

1. The affordability of housing and how it relates to income – i.e., closing the gap;
  2. The need to create a “template” of the process of community development;
  3. The need to develop the capacity of community-based organizations;
  4. The need to educate consumers about predatory lenders and make them financially literate; and
  5. The need for a national housing policy.
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- With respect to housing affordability, one participant noted that “one of the things we talk about in homebuyer counseling is income: how can you get more of it?”
  - This group suggested that the process of community development needed a template of “what flows from what, what are different roles, what’s the role of workforce development, what’s the role of health care ...” In other words, “how can we operate so that we’re not just putting Band-Aids on things?” as one participant put it.
  - Considering the roles of community developers led to a discussion of how CDCs can know exactly what business they’re in but also understand the community processes needed to be successful.

- This group looked to ways that community developers could exert leadership and have some basic issues people could coalesce around. They discussed the new Millennium Commission as a possible nexus around which to legitimately establish such a policy and bring a national spotlight and more federal attention to these issues.

### **Group B: Affordable Rentals, Capacity, Bureaucracy, Changing Environments and Goals**

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Issues of concern to the second group of participants include:

1. The shortage of affordable rental housing;
  2. The need for capacity-building of CDCs;
  3. Bureaucracy, especially within local government, that impedes progress; and
  4. The linking of housing to broader community development goals.
- 
- Because the dearth of affordable rentals had been discussed previously, this group launched instead into a discussion of CDC capacity building. Solutions focused on the positive roles that can be played by national intermediaries such as The Enterprise Foundation, LISC and Neighborhood Reinvestment, and the role some local governments are playing in providing operating support and technical assistance. Among the areas said to be active in this way are Charlotte, N.C., Atlanta and New York State.
  - Peer-to-peer programs that have mature CDCs working with new CDCs were also said to be successful at aiding capacity building. The FHLB of Atlanta has a formal program that pays experienced CDC staff to work with their less experienced peers.
  - Local governments need to become more “development focused and user friendly,” according to this group. It was noted that “where growth is rapid, they [local governments] tend to make it easier” to operate. The group felt there is a need to amend statutory requirements faced by developers, with one participant noting that “I think rules are there simply because they’ve always been there; they may have had a purpose at some point, but is it really a purpose now?”



- The need to link housing to broader community development goals was seen as important to building coalitions and forming consolidated plans with local governments and other organizations.

### **Group C**

The third group's concerns included:

1. Affordability and gentrification;
  2. The disconnect between where jobs are and where affordable housing is;
  3. The inability to provide housing for the poorest of the poor; and
  4. The need for information dissemination.
- Gentrification has always been an issue, but one participant noted that, in the last 15 to 20 years, more and more people are “playing the developer role, buying several homes in neighborhoods that never had such development before.” If even a few houses make values rise, other people get priced out of the market.
  - As job growth continues in the outer rings of cities, communities both in the cities and around the job centers face new problems. There is little affordable housing in the outer rings; in Charlotte, the Microsoft Corporation almost didn't locate there because there was no nearby “workforce housing,” one participant said. There are also few services in these outer rings, or services that are not well linked—e.g., transportation, medical services, education, job training and social services. The need to have a car that's reliable sometimes keeps families from being able to buy a home.
  - It is all but impossible to provide housing for the poorest of the poor. An easier sell is to provide housing for a teacher or a firefighter, one participant noted. This was seen as a political reality for well into the future.
  - The need to get the message out about the good work being done not only by community groups but also by HUD in an organized way was seen to be crucial if national policy around housing issues is to be affected.

## Summary and Next Steps

Belsky asked if there was any other information the participants need in addition to information about the issues raised above. “Numbers” seemed to be the general consensus: data on how affordable housing impacts neighborhoods and appraised values [Laura McGrath mentioned a study that just came out of Minnesota on this and said she would send it to all participants], on multifamily housing, and on the displacement of people.

One participant cited the Urban Land Institute’s project data sheets as an example of the kind of information he would like to have. “I’ve spent a ridiculous amount of time dummifying up an example to show a developer how he can make money,” he said, indicating that more data would make this job easier and more convincing.

Another participant wanted information on “creating sustainable communities in nontraditionally invested communities whose assets are being rediscovered.” This led Belsky to suggest looking at assets that do exist in lower-income communities: “location, stock, character, labor force – the ‘positive speak’ tends to work as long as you’re also honest about the problems,” he said.

Regarding the displacement of people due to the high cost of housing and gentrification, Belsky commented that that “there was a lot of displacement in the ‘70s, with urban renewal, and that was a very disastrous thing ... In a sense, what we’re seeing today is market-based urban renewal.”

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