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Issue 3, 2009

# Community Dividend

Published by the Community Affairs Department of the **Federal Reserve Bank of Minneapolis**

## Revisiting the place-based CDC model

*A conversation with Brian Miller of Seward Redesign*

By Michou Kokodoko

In 1966, New York Senator Robert F. Kennedy toured Bedford-Stuyvesant, a Brooklyn, N.Y., neighborhood that had suffered two decades of disinvestment and blight. Following the tour, Kennedy and neighborhood activists began a dialogue that led to the establishment of what many people consider to be the nation's first community development corporation (CDC).<sup>1</sup> Over the next four decades, the CDC industry gradually expanded, adapting all the while to historic shifts in the nation's economic and political environment. Today, the number of CDCs in the U.S. is estimated at 4,600.<sup>2</sup> Their main role is to anchor capital locally by providing hands-on community revitalization services, such as developing commercial corridors and affordable housing.

CDCs are characterized by having a 501(c)(3) nonprofit, tax-exempt status with the Internal Revenue Service; paid staff members; a volunteer board; and a mission grounded in improving the

quality of life in the communities they serve. From the beginning, CDCs have sought to redevelop their communities using a "bottom-up" approach. For example, the board of directors is typically made up of community residents, especially low-income individuals.<sup>3</sup>

Funding sources for CDCs include foundations, governments, and private businesses. Additional funding and support is provided by community development intermediaries, such as Local Initiatives Support Corporation and NeighborWorks® America. These organizations provide grants, loans, training, and consulting services to help CDCs pursue their missions.

While most CDCs are primarily concerned with creating affordable housing through construction and rehabilitation, others have a broader focus and engage in activities such as property management, commercial and industrial development, transportation, employment assistance, health care, day care,

small business development, and housing counseling. Place-based CDCs are those whose missions are closely tied to delivering services within a specific geography. Approximately 600 of the 4,600 CDCs in the nation serve a single neighborhood.<sup>4</sup>

More than 40 years after Senator Kennedy's tour of Bedford-Stuyvesant, the viability of CDCs—and place-based CDCs in particular—is being tested. Some of the major challenges CDCs face today are described below.

**Demographic changes.** The growing number of new immigrants in cities is changing the mix of services CDCs traditionally provide. According to the U.S. Census Bureau's American Community Survey, the share of the total U.S. population that is foreign-born increased from 7.9 percent in 1990 to 12.6 percent in 2007. Forty-seven percent of the foreign-born population live in central cities, compared to 30 percent of the native-born population. CDCs, the majority of which are located in metropolitan areas, are often taking the lead in assisting newcomers with housing, employment, health care, and other necessities.

**The foreclosure crisis.** CDCs have worked hard to revitalize their communities, rehabilitate homes, invest in

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PHOTO BY STEVE NIEDORE

Nimo Farah, the African Development Center's New Markets Mortgage manager, addresses participants at a recent first-time homebuyer workshop in Minneapolis.

## New Markets Mortgage program broadens homeownership opportunities in Minnesota

By Paula Woessner

When Nawawi Shiekh and Rukia Ali bought their three-bedroom, two-bathroom house in South Minneapolis last February, the transaction marked two important firsts. It was the first home purchase for the young husband and wife, who were thrilled to realize part of the American Dream for themselves and their two small children. It was also the first deal closed under a program that aims to make homebuying a possibility for a previously underserved market of Minnesotans.

The New Markets Mortgage (NMM) program is a home financing product that is profit-based, not interest-based. Although it is open to any qualified

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## Fed survey shows widespread increases in net worth preceded the financial crisis

By Richard M. Todd

Family net worth—the difference between the assets a family owns and the debts it owes—is a critical indicator of family financial well-being. Families with more net worth can afford a higher level of consumption, and even modest amounts of net worth can stabilize families of limited

means by helping them cope with unexpected expenses or temporary income declines. The accumulation of net financial and nonfinancial assets by families of modest means is also an indicator of their integration into the mainstream of American life.

The Federal Reserve's triennial Survey of Consumer Finances (SCF) provides the most comprehensive

assessment of American family net worth.<sup>1</sup> It asks a broad sample of American families about their assets, debts, and other financial matters. Recently, the Fed released data from the latest SCF, which was conducted in 2007. The Fed also released new tables comparing the 2007 data, on an infla-

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*Community Dividend* is available online  
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Revisiting the place-  
based CDC model

*A conversation with Brian Miller of Seward Redesign*

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improvement projects, and increase rates of homeownership. In communities throughout the country, the foreclosure crisis is undoing much of this work. As the incidence of vacant properties increases, CDCs are on the front lines in the struggle against a new wave of neighborhood blight. In addition, the drain that foreclosed properties have on local governments puts a strain on public funding sources, which directly affects CDCs.<sup>5</sup>

**Changes to a major source of federal funding.** One of the biggest sources of funding for CDCs, the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) program, has become less project-specific and changed its distribution model. As a result, much of the grant funding that once went directly to CDCs now goes to state and local governments. Also, since 1981, funding for CDBG formula-based grants has dropped by 59 percent when adjusted for inflation. More recently, funding fell from \$4.3 billion in fiscal year 2003 to \$3.6 billion in fiscal year 2008. When adjusted for inflation, this represents a 28 percent cut.<sup>6</sup>

**Changes in funders' expectations.** Funders of community development work are increasingly looking for comprehensive impact evaluation reports from their grantees. Small CDCs are often not able to afford data tracking tools and other instruments needed to produce these reports.

To learn more about how place-based CDCs are coping in these uncertain times, *Community Dividend* spoke with Brian Miller, who has served as executive director of Seward Redesign since 2002. Seward Redesign is a CDC serving the Seward, Longfellow, Howe, Hiawatha, and Cooper neighborhoods of the Greater Longfellow Community in southeast Minneapolis. Miller is a licensed real estate broker and attorney and has experience in real estate development, community development, construction management, finance, and law. In addition, he has been a consultant to private and nonprofit clients on development projects. No matter what hat he wears, Miller seeks to work closely with community members to address housing and economic development issues.



Brian Miller

**Community Dividend:** In light of the challenges CDCs face today, do you think place-based CDCs and the bottom-up approach to decision making are still relevant?

**Brian Miller:** I think the idea of having place-based CDCs is still important. I believe it's better to make decisions closer to where information is. The more you remove decision making from the source of information, the less likely you are to get good decisions. There's been a trend within community development and elsewhere in society to try to create efficiencies of scale, which basically means consolidating and creating larger organizations. It may work effectively to begin with, but over time as the organizations grow and become more bureaucratic, the decision makers become more removed from the information base.

The bottom-up approach in the community development field ensures that you and the people who are most familiar with issues in the community make decisions together. Therefore, when a problem arises, instead of pointing fingers at somebody from outside the community, people roll up their sleeves and take responsibility for that problem. They help solve the problem and they also take some ownership over the solution.

CDCs are fundamentally entrepreneurial. We alter the built environment as part of a longer-term approach to creating opportunity. Place-based CDCs create more than just affordable housing. We advocate around streets, bike paths, pedestrian circulation, and access to mass transit. We also develop commercial corridors that provide necessary goods and services to

people—for example, maintaining access to a grocery store in the community and maintaining access to a bank. Those things are important for the economic viability of the community and for attracting people to live there and reinvest in the housing stock. And for that reason, some CDCs ought to remain geography-based.

**CD:** About ten years ago, your organization expanded its service area to include the four other neighborhoods in the Greater Longfellow Community. If the bottom-up approach was working well for Seward Redesign and Seward residents, why did you feel the need to expand your service area?

**Miller:** I wasn't here when the expansion happened, but as I understand it, the Greater Longfellow Community was looking at whether or not it should create its own CDC or work with an existing CDC. So there was some dialogue between Seward Redesign and Longfellow Community Council to explore partnership opportunities. Based on those discussions, and with some encouragement from the funding community, the decision was made to expand Seward Redesign's service area rather than create another CDC. With an expansion, the question becomes, "How big can you get while still remaining immersed enough in the community to sustain relationships and communication with residents and businesses?" In our case, we had already been doing some work in greater Longfellow and we thought there were enough common networks, values, and issues to make it a functional relationship.

**CD:** CDC researcher Randy Stoecker asserts that there is an inherent problem in trying to maintain community control of development projects. According to Stoecker, poor communities don't have enough community-controlled capital, and therefore must look for outside capital whose tendency is to transform use values (i.e., preserving neighborhood space) into exchange values (i.e., converting neighborhood space for a profit). Do you agree with that position?

**Miller:** I think Stoecker's analysis is too black and white. Yes, there is an inherent conflict between community values and access to capital, but there are also opportunities to achieve a balance between the two.

As a CDC, we need to meet the criteria for financing our projects, but the decisions regarding which projects to choose and when to pursue them are made by community members and reflect the community's values. For example, one of our recent projects was the Riverside Market site, a one-acre site at Franklin and Riverside Avenues that was highly sought-after by market-rate developers. We saw some of their concept drawings and they already had in mind a chain drugstore with housing on top of it.



Seward Redesign's recent development projects include the Seward Co-op grocery store (pictured above, at left and bottom right) and Tracy's Saloon (above, top right), a neighborhood eatery.

However, the neighborhood grocery co-op needed and wanted to expand. When Seward Redesign got control of the site and solicited input from the community, we found that people were widely supportive of the co-op expanding on that site. The economics of developing the site dictated a mixed-use development, but we committed to what the neighborhood wanted and began advocating within the CDC community for New Markets Tax Credits to close the financing gap. The project came together and got built as the neighborhood's co-op grocery store. That's an example of how a CDC, even though it has to go outside the community for capital, can do what the community wants.

**CD:** Has the economic downturn changed the funding environment for Seward Redesign?

**Miller:** Yes, certainly, our short-term outlook is affected by the economy. But there has also been an evolving, long-term reality for CDCs. And by "CDCs" here, I'm referring to CDCs like us that focus on building healthy neighborhoods. For several reasons related to the nature of our work, organizations like ours have had increasing difficulty attracting funding. We don't do enough of the larger, more profitable projects, for example. We don't produce large enough numbers, usually of housing units, to meet current evaluation standards. And much of what we do is time-intensive work that our clients cannot pay for, like working with emerging businesses or planning with the community. That kind of work is not currently in vogue with many funders.

The other issue is that the priorities of the community do not necessarily align at any given time with the work that is most financially rewarding. Lately, the priorities in our community have been on commercial corridor and small business development. The financing available for projects

has been much more focused on affordable housing. Right now, both are in trouble.

I think the trick is to put together the right combination of services and income streams so the organization can sustain its capacity and remain a community asset without prostituting itself to someone else's agenda.

**CD:** You mentioned the term "capacity," which usually refers to the extent to which CDCs can perform their tasks successfully. What's your understanding of the term?

**Miller:** That's a good general definition of capacity, but under a neighborhood-based model of community development, the definition becomes much more complex than completing tasks or projects. Our capacity is a combination of the technical

skills and experience of our staff and the financial resources that we have available for investment. Our "success" in mobilizing that capacity is measured by a wide range of constituents in the community who have shaped our vision and plans.

On numerous occasions, we've undergone a lot of examination by intermediaries to measure our capacity. Any one of their measurement approaches usually lasts for a couple of years. Our own measure continues to be the physical and economic health of our community.

**CD:** So, you've worked with intermediaries on capacity measurement. How else have you worked with them?

**Miller:** We've used LISC [Local Initiatives Support Corporation] as a source for small amounts of seed money. For example, they have feasibility grants of \$5,000 that enable us to do some quick evaluation of a project at a very early stage. Occasionally, they also have what they call "recoverable grants" that they can approve for up to \$50,000 locally. Those can be helpful. For larger projects, their interest rate is usually higher than what I could borrow from my bank. GMHC [Greater Metropolitan Housing Corporation, a Twin Cities-based housing intermediary] has traditionally provided seed capital at more competitive rates, but that resource has dried up in the current environment, too.

**CD:** What do you think the future holds for place-based CDCs?

**Miller:** I think CDCs are at an absolutely critical point in terms of reexamining why they exist and how they go about doing business. If CDCs are going to survive as something other than nonprofit housing

producers, the remaining neighborhood-based organizations will need to come together as a group and evolve. We'll need to recognize the central issues we face, such as how do we continue to attract and sustain staff expertise? How do we hold funders and partners accountable for providing adequate capital to pursue and invest in neighborhood-scale projects? And how do we limit our organizational growth to levels that can be sustained over the long term? We'll need to start viewing ourselves as an industry, which to me means acting collectively to articulate and provide things like peer-to-peer technical assistance across organizations, instead of relying on intermediaries, and identifiable career paths for young talent to stay in the industry and grow. We'll also need to recognize that while our direct constituencies are neighborhoods, cities are a part of our industry and are also our customers. We need to work out a more intentional, long-term partnership with city governments that recognizes the role and value-added services we provide and the tools we need to do our work effectively. **cd**

<sup>1</sup> "Bedford Stuyvesant Restoration Corporation, Brooklyn, NY," CDC Oral History Project, Pratt Center for Community Development, [www.prattcenter.net/cdc-bsrc.php](http://www.prattcenter.net/cdc-bsrc.php).

<sup>2</sup> From survey results released in June 2006 by the National Congress for Community Economic Development. (This organization has since been dissolved due to a lack of financial support.)

<sup>3</sup> Gary Paul Green and Anna Haines, *Asset Building and Community Development*, Sage Publications, 2008.

<sup>4</sup> See Footnote 2.

<sup>5</sup> For more on CDCs' efforts to address foreclosures, see "Weathering the storm: Community developers in Minnesota face the foreclosure crisis" in *Community Dividend*, Issue 1, 2009. Available at [www.minneapolisfed.org](http://www.minneapolisfed.org).

<sup>6</sup> *The Community Development Block Grant (CDBG)*, Alliance for Children and Families, November 2008, [www.alliance1.org/Public\\_Policy/budgets/CDBG.pdf](http://www.alliance1.org/Public_Policy/budgets/CDBG.pdf).

## The beginnings of Seward Redesign

In the mid-1960s, the Minneapolis Housing and Redevelopment Authority (HRA) determined that many of the houses in the Seward Neighborhood on the city's southeast side were no longer salvageable and had to be demolished. The agency proposed clearing about 39 square blocks. Backed by preservationists from the Minnesota Historical Society, neighborhood residents dissuaded the HRA from continuing with the proposed plan. Meanwhile, residents began working with a local church, Trinity Lutheran, which granted \$5,000 to support efforts to address an affordable housing shortage in the neighborhood. Using the grant as seed money, residents created a new, all-volunteer organization called Neighborhood Research and Development (NRD) to purchase rundown homes in Seward,

rehab them, and sell them to low-income families.

In November 1972, NRD became Seward West Redesign. Later, the organization dropped the "West" from its name and became known as Seward Redesign (SR). Throughout the 1970s, SR concentrated on rehabbing single-family homes, building low-income and market-rate townhouses, and managing properties. In the mid-1980s, SR broadened its mission to include economic development. SR later became a community development corporation under the leadership of its first paid staff member, Executive Director Caren Dewar. Both of Dewar's successors, David Fey and Brian Miller, have concentrated their efforts on job creation, affordable housing, and commercial district revitalization.

*This sidebar draws on material originally published as "When the banners came down: Minneapolis's early community development corporations," in Hennepin History by Eric Nathanson, 2008.*

# New Markets Mortgage program broadens homeownership opportunities in Minnesota

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first-time homebuyer in Minnesota, the program is most likely to appeal to buyers like Shiekh and Ali, whose strict interpretation of their Muslim faith prohibits them from paying interest.

The NMM program was conceived as a three-year, \$15 million pilot. It is offered and administered by the African Development Center (ADC), a community-based economic development organization in Minneapolis. Creation of the program was spurred by ADC, which worked in partnership with Fannie Mae, Minnesota Housing (the Minnesota Housing Finance Agency), and Devon Bank over a three-year development period. Program delivery involves ADC acting as mortgage broker; Devon Bank acting as originator, underwriter, and servicer; and Minnesota Housing acting as investor. While the NMM is not the only non-interest-based mortgage program available in the U.S., it is the first in which a community-based organization serves as the lead entity and a state housing finance agency provides investment funding. And while it has an unconventional financing structure that meets the requirements of Islamic law, the NMM product resembles a conventional mortgage in nearly every other respect.

## “Cost-plus” financing

Technically, Islamic law does not directly prohibit interest. Instead, it prohibits *reba*, a concept that loosely translates as “renting” money, or making money off of money itself.<sup>1</sup> Interest is a vehicle that carries *reba*, so Muslims are prohibited from participating in financial transactions that involve interest payments. Islam is not the only faith with such a prohibition in place. Orthodox Jews and members of some Christian denominations may observe similar prohibitions, depending on their interpretation of certain scriptural passages. However, Muslims make up the single largest interest-averse segment of the population in the U.S. This is especially true in Minnesota, which is home to thousands of Somali refugees, almost all of whom are Muslim.

The Islamic prohibition against *reba* was set down 14 centuries ago in the Koran as a means of preventing usury and promoting economic justice. In observance of the prohibition, the Muslim world developed a financing system that does not involve interest. Under this system, a *murabaha*, or “cost-

plus,” sale is a common type of financial transaction. In a *murabaha* sale, a financier must first own the item that is being sold. The financier then sells the item to the buyer at a marked-up price, and the buyer pays the financier the total price in installments over a period of time. In this way, the financier profits from the sale of the item instead of profiting from the sale of money.

Because individual Muslims have differing interpretations of the Koran, the degree of observance of the *reba* prohibition varies. In Western countries, where *reba*-free financing options may be limited or nonexistent, some Muslims participate in interest-based mortgage transactions willingly and comfortably. Some Muslims will not participate at all, even if they experience overcrowding or other housing hardships as a result. And some fall in the middle; they are ill at ease with the idea of interest-based financing, but will participate as a last resort, in order to acquire adequate housing for their families. In some cases, local Islamic scholars may need to issue special rulings to ease the families’ worries about violating their faith. For Muslims who live in the West and follow a strict interpretation of the Koran, developments like the NMM program can be the key to achieving homeownership while living in harmony with deeply held religious beliefs.

## Developing the program

The idea to create the NMM program took root nearly a decade ago. Demand for alternative mortgage products grew in Minnesota in the late 1990s as the state’s population of Somali refugees and other Muslims from East Africa surged. In the spring of 2000, the Minneapolis Fed convened a daylong conference so lenders and community leaders could meet and discuss the issue. Hussein Samatar, the founder and executive director of ADC, was then a banker at Wells Fargo in Minneapolis. He participated in the Fed conference and on an alternative financing workgroup the event spawned. When the workgroup later disbanded, Samatar continued to pursue the idea of bringing *reba*-free mortgages to Minnesota. Shortly after he left Wells Fargo and founded ADC in 2003, Samatar launched a focused effort to create a *murabaha*-based mortgage financing product. He initially approached Fannie Mae, which started developing alternative

mortgage documents in response to his requests.

Meanwhile, Minnesota Housing, together with the Federal Reserve Bank of Minneapolis and the Minnesota office of Fannie Mae, launched the Emerging Markets Homeownership Initiative (EMHI), a strategic plan to close the substantial gap in homeownership rates between white Minnesotans and the state’s minority and immigrant communities. During the plan’s design phase, Samatar helped EMHI’s conveners identify the lack of alternative financing products as the major barrier to homeownership for many of Minnesota’s newer residents.

Creation of the NMM program began in earnest in 2006. The process started with Minnesota Housing and Fannie Mae working to sort out legal complexities related to Fannie Mae’s alternative mortgage documentation. Once the documentation was ready, Samatar arranged for local Islamic scholars to review it from a religious standpoint, and Minnesota Housing began conducting research to identify a lender with experience in profit-based financing. The agency ultimately selected Devon Bank, a 63-year-old, full-service community bank headquartered in an ethnically diverse Chicago neighborhood. Devon Bank began offering *murabaha*-based financing in 2003, in response to demand from Muslim customers in its service area, and is now one of the top *murabaha* mortgage providers in the country.

As Minnesota Housing was negotiating a servicing agreement with Devon Bank, Samatar was obtaining a broker’s license and training his staff to administer the new program. By the final months of 2008, all the pieces were in place, and the first NMM homebuyers—Sheikh and Ali—were pre-approved in December.

## How the process works

While ADC’s obvious goal in offering the NMM program is to get clients into homes, an equally important goal is to prepare those clients to be informed, successful homeowners for the long run. All prospective NMM participants are required to attend first-time homebuyer training workshops. Workshop graduates who are interested in applying for an NMM mortgage must then meet with one of ADC’s trained counselors, who analyze the clients’ financial profiles and, if needed, put them on a

plan to resolve any outstanding credit issues. In addition, ADC synthesizes and shares information about any existing down payment assistance programs. If clients meet the program’s income requirements and are in good financial shape to purchase a home, ADC forwards their applications to Devon Bank for preapproval.

Next, the preapproved clients go house hunting. They are free to purchase any single-family home in the state, so long as it is in mortgageable condition and meets price limits set by Minnesota Housing. Once the clients find a house and agree on a purchase price with the seller, ADC forwards the completed file to Devon Bank. Devon Bank then underwrites the mortgage, using standards that are based on Fannie Mae guidelines, and also draws up the mortgage documents, orders the appraisal, arranges for the title insurance, and coordinates the closing.

The process is identical to a conventional loan underwriting and closing process, except for the way the deal is structured. In a conventional mortgage transaction, the homebuyer borrows money from the lender, uses the borrowed money to buy the house directly from the seller, and then repays the lender the loan principal plus interest. In an NMM transaction, Devon Bank buys the house directly from the seller and then immediately sells the house to the homebuyer at a marked-up price. The profit markup, which is calculated according to market interest rates, is equivalent to the total interest payments that would be paid over the life of a 30-year conventional loan. The buyer then pays Devon Bank the total, marked-up price for the house, in the form of an initial down payment plus fixed, monthly installments that are paid out over a 30-year period.<sup>2</sup> Since there is no interest involved, the transaction is acceptable under Islam and other faiths.

“Technically speaking, this isn’t a loan, because we never gave them any money in the first place,” explains David Loundy, corporate counsel and vice president of Devon Bank. “Rather, we stepped in and bought the house on their behalf, then turned around and sold it to them at a higher price, paid over time, but at no interest. So when they pay us, they’re not paying us back principal and interest that was lent to them. They’re simply paying us an installment sales price.”

According to Devon Pohlman and Chuck Callender, who serve on the



## Taking the first step toward homeownership

Attending a first-time homebuyer training workshop is the first step toward homeownership for many families and is a required component of the African Development Center's (ADC) New Markets Mortgage program. On June 6, *Community Dividend* visited a first-time homebuyer workshop ADC sponsored in Minneapolis. During the opening sessions of the workshop, instructors Nimo Farah (pictured on page 1) and Stephen Wreh-Wilson (top right) of ADC and guest presenter Kim Quayson of Mid Country Mortgage (top left) explained some of the basics of the homebuying process. Additional instructors (not pictured) included Hussein Samatar of ADC, Barbara Lighty of City of Lakes Community Land Trust, Kay Lund of Wells Fargo Home Mortgage, Emily Green of Sandy Green Realty, Henry Rucker of Lutheran Social Service, and housing consultant John Trostle. The workshop was part of the Home Stretch homebuyer education program developed by the Minnesota Home Ownership Center.



Business and Policy Development Team at Minnesota Housing, the deal involves three key documents created by Fannie Mae and Devon Bank: the mortgage, the note, and the agreement. The agreement is distinct from any of the documents used in a conventional home purchase, in that it spells out the terms of the *murabaha*-based NMM transaction. The mortgage and note documents are nearly identical to those used with conventional loans.

Once the closing is completed, Minnesota

Housing steps in as the investor and purchases the note, using part of the \$15 million set aside for the NMM pilot program. The fund, which is drawn from the same pool of investment earnings that the agency uses to fund its other first-time homebuyer programs, will be in place for three years or until the money runs out, whichever comes first.

### As conventional as it gets

The players involved in delivering and

funding the program all emphasize the conventional look and feel of the NMM product. Aside from the way the payments are structured, an NMM mortgage transaction is virtually indistinguishable from any other first-time homebuyer purchase financed by Minnesota Housing. Buyers must meet all of Minnesota Housing's standard first-time homebuyer requirements, for example. Property taxes and homeowner's insurance are escrowed. Buyers whose down payment equals less

than 20 percent of the home's price pay an additional markup that is used to purchase private mortgage insurance. And in the end, the monthly payment is identical to what a homebuyer would pay on a conventional loan.

"It really looks like PITI, except that the first 'I' is actually profit, not interest," says Samatar. "The structure of the financing may not be the same, but everything else is as conventional as it gets."

Callender characterizes the product as

PHOTOGRAPHY BY STEVE NIEDORF

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# Fed survey shows widespread increases in net worth preceded the financial crisis

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tion-adjusted (or *real*) basis, with the data from six previous SCFs going back to 1989. These data show that the real net worth of American families grew significantly in the years leading up to the current financial crisis. This was true for the typical family overall, and to a lesser but still significant degree for typical low-income, minority, and single-parent families.

We know, of course, that many of the gains have been erased by big declines in home equity, stock prices, and employment since the current financial crisis erupted in August 2007. It is too early to determine exactly how the declines have affected the financial standing of American families. However, the latest SCF findings, summarized below, are a useful tool for determining where families stood before the crisis hit.

## A decade of growth, 1998–2007

On the whole, Americans' net worth has grown substantially over the last two decades. Median family net worth, or the level at which half of all families have more net worth and half have less, rose (in 2007 dollars) from \$75,500 in 1989 to \$91,300 in 1998, a 21 percent increase. It then rose to \$120,200 in 2007, a 32 percent increase from 1998.

In the most recent decade covered by the SCF, median family assets rose 41 percent, from \$156,900 in 1998 to \$221,500 in 2007, while median family debt rose 63 percent, from \$41,400 to \$67,300. In other words, the rapid growth in assets from 1998 to 2007 was accompanied by an even faster growth in liabilities. But because median debt grew from a smaller base than median assets, and thus by a smaller dollar amount, median net worth increased.<sup>2</sup>

The increase in real median family asset holdings over this period was highly concentrated in nonfinancial assets, especially

residential real estate. The percentage of families that owned nonfinancial assets edged up, from 90 in 1998 to 92 in 2007, and the real median amount of those assets rose 42 percent, to \$177,400. Owner-occupied homes dominate family nonfinancial assets. From 1998 to 2007, the percentage of families owning a primary residence rose from 66 to 69, while the real median value of the residences they occupied rose from \$127,300 to \$200,000 (a 57 percent increase). Not surprisingly, home-secured debt (mostly mortgages and home equity loans on primary residences) also rose rapidly over this period. The percentage of households with such debt increased from 43 in 1998 to 49 in 2007, while the real median amount of these debts rose from \$78,900 to \$107,000 (a 36 percent increase).

Family net worth tends to increase as income earners approach the end of their working lives. Consequently, some of the increase in real net worth between 1998 and 2007 is simply due to the aging of the American population. However, the SCF data suggest gains even when controlling for age. All age brackets in the 2007 SCF showed gains in real net worth compared to the same age bracket nine years earlier, although the gains were minimal to modest for families headed by individuals who were younger than 45.

## Gains among families of modest means

The SCF shows that low-income, low-education, minority, and single-parent households, among other groups, tend to have below-average net worth. Although median net worth for these types of families remained or fell further below the overall median in 2007, their net worth nonetheless improved from 1998 to 2007—in part because, as explained below, they became increasingly likely to own important types of assets such as homes, retirement accounts, and cars.

**Families with very low income.** Generally, the tie between current income and net worth is strong because the less income a family has, the fewer assets it can buy. Very low-income families, defined here as those in the lowest 20 percent of the distribution of income reported in the SCF, had real net worth of only \$7,400 in 1998, or about 8 percent of overall median family net worth that year. The net worth of very low-income families rose just under 10 percent over the next nine years, to \$8,100, less than 7 percent of overall median family net worth in 2007.

In 2007 as compared to 1998, a greater percentage of very low-income families reported holding assets such as checking accounts, retirement accounts, houses, and cars. However, except for houses, the real median value of their holdings did not rise rapidly, and the lower rate of homeownership among very low-income families (41 percent in 2007, compared to 69 percent for all families) limited their real estate gains, too. Of course, this could also make them relatively less vulnerable to the declines in home values since 2007.

## Families with low levels of education.

According to the SCF, families headed by individuals with a high school education or less typically have lower net worth than families headed by individuals with a higher level of education. This remained true in 2007, despite gains in real median net worth among less educated families. For those with less than a high school education, real net worth rose 23 percent, from \$26,900 in 1998 to \$33,200 in 2007. An increase in the percentage of families owning checking accounts and cars helped boost the median assets of these families. Families with a high school education remained wealthier than those with less education, holding real median net worth of \$80,300 in 2007. However, they experienced a smaller rate of increase from 1998 (17 percent) and saw their median net worth slip from 75 percent of the overall median in 1998 to 67 percent in 2007.

**Racial and ethnic minority families.** After doubling between 1989 and 1998, the real median net worth of nonwhite and Hispanic families rose about 31 percent from 1998 to 2007, from \$21,200 to \$27,800. This was slower than the 40 percent rise in the real median net worth of non-Hispanic white families, primarily due to a faster rate of increase in indebtedness for minority families.

Minority families' real asset holdings

grew relatively rapidly from 1998 to 2007 in two senses. First, the percentage of minority families reporting asset holdings in the SCF rose from 90 to 95, whereas the percentage for non-Hispanic whites held steady at 99. The percentage of minority families with retirement accounts and cars rose especially rapidly, and their homeownership rate rose almost 5 percentage points, to 52 percent. Second, among families reporting assets, the real median value rose faster for minorities (up 55 percent to \$89,200) than for non-Hispanic whites (up 46 percent to \$271,000).

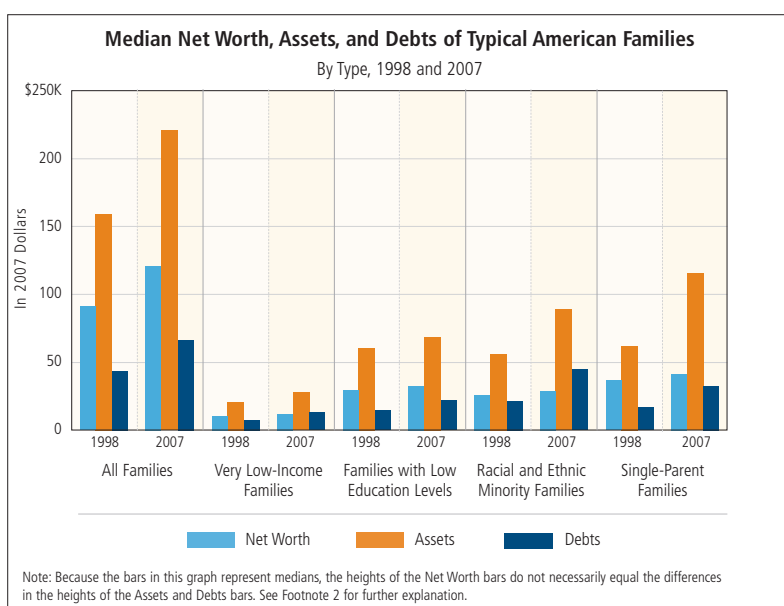
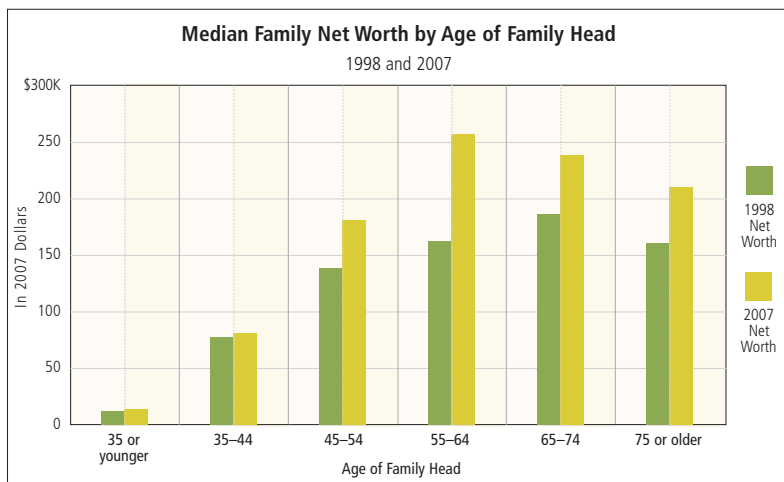
However, from 1998 to 2007, the indebtedness of minority families grew faster than their asset holdings and faster than the indebtedness of non-Hispanic whites. Seventy-eight percent of minority families were in debt in 2007 and the real median amount of their debts was \$43,900. That amount is a 123 percent increase from 1998 levels, compared to a 51 percent rise to \$76,400 for non-Hispanic whites.

Debts related to real estate and education contributed to the expansion of indebtedness among minority families. The real median amount of home-secured debt did not differ much by race/ethnicity in 1998 and was only slightly higher for minorities in 2007. However, the percentage of minority families with home-secured debt rose from 31 percent in 1998 to 40 percent in 2007, compared to an increase from 47 to 52 percent for non-Hispanic whites. In 1998, 11 percent of minority and non-Hispanic white families owed educational debts. By 2007, 18 percent of minority families had educational debts, versus 14 percent of non-Hispanic white families, and the median amount owed rose 48 percent among minorities (to \$9,600) but only 32 percent among non-Hispanic whites (to \$12,500). Thus, minority families disproportionately increased their indebtedness between 1998 and 2007 in large part to acquire real and educational assets, increasing their vulnerability to recent declines in housing prices and jobs.

**Single-parent families.** The real median net worth of single-parent families rose a moderate 14 percent from 1998 to 2007, from \$36,000 to \$41,000. Over this period, these families experienced significant gains in the median value of their assets. However, the gains in asset value were offset by increases in the percentage of single-parent families in debt and the real median amount of their debts. For example, the real median amount of mortgages and other home-secured debt held by single-

## For more information

For more on the Survey of Consumer Finances (SCF) and the data summarized here, see the February 2009 *Federal Reserve Bulletin* article titled "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," by Brian K. Bucks, Arthur B. Kinnickell, Traci L. Mach, and Kevin B. Moore. The article is available at [www.federalreserve.gov/pubs/bulletin](http://www.federalreserve.gov/pubs/bulletin). Detailed charts and tables of 2007 SCF data can be found in the *2007 SCF Chartbook* at [www.federalreserve.gov/pubs/oss/oss2/2007/2007%20SCF%20Chartbook.pdf](http://www.federalreserve.gov/pubs/oss/oss2/2007/2007%20SCF%20Chartbook.pdf).




parent families increased by 91 percent from 1998 to 2007. Increased use of installment and educational debt also curbed the net worth gains of single-parent families.

### Assessing the reversal

In summary, the SCF reveals that from 1998 to 2007, real net worth rose substantially for the typical American family. It also rose for typical families within less wealthy subgroups, although not as rapidly. In some cases, a lower rate of homeownership kept net worth gains lower for the less wealthy, and in some cases increased mortgage, educational, and other debt held their net worth gains down.

Many of the gains realized between 1998 and 2007 have been reversed by the subsequent financial crisis and recession. Economists with the Fed's Board of Governors estimate that the decline in housing and stock prices from the time of the 2007 SCF through October 2008 reduced overall median family net worth by 17.8 percent from its 2007 high point of \$120,200. That would leave real median family net worth at around \$99,000, which is less than the median family net worth of \$101,200 recorded by the SCF in 2001. If we also allow for declines in homeownership through foreclosure, declines in employment due to the recession, and further drops in housing prices since October 2008, real median family net worth could be

slipping toward the 1998 level of \$91,300.

At this point, we simply have little information on exactly how post-2007 losses have been distributed across different categories of families. For many less affluent families, lower exposure to real estate and stock ownership may dampen the impact of the asset price declines since 2007, just as it reduced the benefits they received when asset prices were rising. However, a precise assessment of the impact and distribution of net worth changes since 2007 will have to await better data, including those from the 2010 SCF. 

<sup>1</sup> The SCF provides the best available data on the assets American families already own, but it excludes sources of income to which family members may be entitled in the future, such as Social Security or pension payments. To learn how including these types of family resources can affect calculations of wealth, see the article "A New Look at the Wealth Adequacy of Older U.S. Households," by David A. Love, Paul A. Smith, and Lucy C. McNair, in the December 2008 edition of *Review of Income and Wealth*. Available at [www3.interscience.wiley.com/journal/118503348/home](http://www3.interscience.wiley.com/journal/118503348/home).  
<sup>2</sup> It is inherent in the way medians are defined that (the change in) median net worth is generally not exactly equal to (the change in) median assets minus (the change in) median debts. If we used mean (or arithmetic average) net worth instead, these relationships would hold exactly. However, mean net worth is heavily influenced by the holdings of very affluent households, making it less suited for highlighting trends in the financial condition of families of modest means.

## New Markets Mortgage program broadens homeownership opportunities in Minnesota

Continued from page 5

"different, but not 'special,'" and adds, "This product is built on standard Fannie Mae underwriting. With the New Markets Mortgage program, Minnesota Housing is doing what it always does in the first-time homebuyer market, and that's buy industry-standard mortgage products." In addition, Callender points out that in a worst-case scenario, an NMM mortgage would be treated just like any other mortgage Minnesota Housing finances. If the buyer defaults on the payment agreement, Devon Bank must foreclose on the mortgage on Minnesota Housing's behalf.

### Uncertainty and optimism

So far, there is an ample supply of prospective NMM clients. ADC trains 30 to 35 families a month at its first-time homebuyer workshops, and there are currently several preapproved families in the pipeline. Given the finite amount of funding behind it, the NMM pilot will not be able to accommodate every potential homebuyer who expresses interest in the program. But the NMM's creators are hopeful that the market demand demonstrated during the pilot phase will pave the way for expanding the program's funding and capacity.

According to its proponents, the NMM program has worthy goals and, in light of the downturn in the real estate market, excellent timing.

"The ADC program is particularly rewarding," says Loundy of Devon Bank. "It's getting people into homes who otherwise wouldn't have the option. And it's


bringing a new populace of buyers online at a time when we need to burn off the inventory of foreclosed homes and turn around the whole housing market." He notes that the house purchased by Shiekh and Ali was a foreclosed property.

Since the launch of the program, ADC, Devon Bank, and Minnesota Housing have fielded inquiries from lenders, developers, Realtors, and other industry players from around the country who are interested in bringing similar financing options to their communities.

"The homeownership industry understands the market benefits of this program. Real estate agents, developers, appraisers, lenders, home inspectors—they all see business opportunities here," says Pohlman of Minnesota Housing. However, she tempers her comments with a dose of caution.

Pohlman points out that due to the turmoil in the economy, "Our agency's financial position looks radically different than it did a year or two ago, and there are a lot of converging macroeconomic factors that could affect the program's viability." Examples include housing price fluctuations, employment rates, and tightened underwriting standards.

Samatar of ADC acknowledges the uncertainty, but remains optimistic about what the future holds for the NMM program.

"Nobody knows what will happen with the housing market and the financial crisis we're in, but given the conditions we have now, this product is a positive spot of growth. It could enable people to access homes right when we need people to access them. We're increasingly hopeful about this program, and I think the future is bright." 

For information about applying for the NMM program, contact the African Development Center at 877-232-4775 or visit [www.adcminnesota.org](http://www.adcminnesota.org).

<sup>1</sup> American Finance House LARIBA Knowledge Center, [www.lariba.com](http://www.lariba.com).

<sup>2</sup> Minnesota Housing, *New Markets Mortgage Pilot Program Frequently Asked Questions*, March 2009. Available at [www.mnhousing.gov](http://www.mnhousing.gov).

### Major *murabaha* mortgage providers

Devon Bank in Chicago ([www.DevonBank.com](http://www.DevonBank.com)), which provides underwriting and servicing for the New Markets Mortgage program, is not the only financial institution that provides *murabaha*-style mortgages in the U.S. Other major players in the non-interest-based mortgage market are listed below.

**American Finance House LARIBA**  
Pasadena, Calif., [www.lariba.com](http://www.lariba.com)

**Guidance Residential**  
Reston, Va., [www.guidanceresidential.com](http://www.guidanceresidential.com)

**University Islamic Financial**  
Ann Arbor, Mich., [www.universityislamicfinancial.com](http://www.universityislamicfinancial.com)

## News and Notes

### Fed offers credit card payment calculator

The Board of Governors of the Federal Reserve System (Board) has created an online calculator that can help consumers identify the true cost of credit cards. The Credit Card Repayment Calculator at [www.federalreserve.gov/creditcardcalculator](http://www.federalreserve.gov/creditcardcalculator) asks users to enter the balances and annual percentage rates of their credit card accounts. The calculator then determines the total amount of interest and time required for users to pay off their balances if they made only the minimum monthly payment. The calculator is available in English and Spanish and is accessible via touchtone telephone, toll-free, at 888-445-4801.

The Board created the telephone version of the calculator in part to help some creditors comply with a new disclosure requirement contained in recent amendments to Regulation Z, the implementing regulation for the Truth in Lending Act. Under the requirement, which becomes mandatory on July 1, 2010, creditors must disclose on their periodic account statements a toll-free telephone number that consumers can use to obtain an estimate of the time it will take to pay off their credit card balances. Creditors that are depository institutions must either establish and maintain their own toll-free numbers or use third-party numbers. Depository institutions having assets of \$250 million or less may use the Board's toll-free number for up to two years to satisfy the requirement.

### Minnesota Home Ownership Center assumes responsibility for EMHI

In an agreement announced last April, the Minnesota Home Ownership Center (HOC) in St. Paul, Minn., has assumed responsibility for the Minnesota Emerging Markets Homeownership Initiative (EMHI). Under the agreement, EMHI will cease to be a stand-alone organization and will be absorbed into HOC's ongoing program activities. The change is intended to ensure EMHI's viability in a challenging housing market.

EMHI was conceived five years ago as a means of closing the gap in homeownership rates between Minnesota's general population and the state's minority communities. At the time, Minnesota's overall homeownership rate was nearly 80 percent, while the homeownership rate for minorities was just over 40 percent. EMHI was convened by Minnesota Housing (the Minnesota Housing Finance Agency), Fannie Mae, and the Federal Reserve

Bank of Minneapolis. More than 50 additional organizations, including financial institutions, Realtors' associations, and community development groups, participated in the initiative in an advisory capacity.

Following a kick-off event in June 2004, EMHI's conveners and advisors developed a business plan to identify strategies and best practices for addressing Minnesota's homeownership disparities. The completed business plan, which was submitted to Governor Tim Pawlenty in March 2005, set a goal of helping 40,000 emerging market households achieve homeownership by 2012.

EMHI began operating as a stand-alone organization in the spring of 2006. In the ensuing years, the initiative assumed a unique role as a facilitator, advocate, and liaison on emerging market homeownership issues. EMHI's accomplishments included creating community councils to establish ongoing communication with the four major emerging market groups in Minnesota (American Indian, Asian American, Latino, and Pan African), developing and conducting an industry education program to help real estate professionals enhance their relationships with minority populations, and establishing 12 pilot programs to highlight effective approaches for reaching emerging market buyers.

In the spring of 2008, in response to worsening market conditions brought about by the foreclosure crisis and economic recession, EMHI's board of directors appointed a planning group to assess the organization's status. The planning group determined that EMHI's goal of closing Minnesota's homeownership gap by 2012 was no longer feasible due to reversals in the housing market. However, the group also determined that to facilitate long-term wealth creation for minority families and create business opportunities for the homeownership industry, it was essential that EMHI continue to advocate for emerging market homeownership. In order to give EMHI a permanent home and ensure the needs of emerging markets remain in the forefront in Minnesota, the planning group recommended that EMHI's board of directors ask the HOC to assume responsibility for EMHI. The HOC is a nonprofit organization that provides homeownership services, such as first-time homebuyer training and foreclosure counseling, and serves as an intermediary among Minnesota's housing advocates, funders, and providers. The HOC had demonstrated its dedication to emerging markets issues through its participation in and support of EMHI's activities over the previous three years.

Last March, the boards of directors of

EMHI and the HOC approved the planning group's proposal. Effective April 6, EMHI's organizational structure was dissolved and the HOC assumed responsibility for EMHI's activities. Shortly afterward, the HOC invited EMHI's former board members, along with the members of EMHI's four emerging market community councils, to form an advisory group that will help guide and inform the HOC in its management of EMHI.

For more information on EMHI, visit [www.emhimmn.org](http://www.emhimmn.org).

### Census data show homeownership rate has fallen to 2000 levels

The homeownership rate in the U.S. has fallen to a level last seen in mid-2000, according to the U.S. Census Bureau. Recently released data from the Housing Vacancy Survey, which is a supplement to the bureau's Current Population Survey, indicate the overall homeownership rate in the U.S. was 67.3 percent in

the first quarter of 2009, a level last recorded nine years ago when the rate ranged from 67.2 percent to 67.7 percent in the second and third quarters of 2000. The Quarter 1, 2009, rate is down more than 2 percentage points from an all-time high of 69.2 percent recorded in the second and fourth quarters of 2004. The seasonally adjusted homeownership rate was 67.5 percent in the first quarter of 2009, a level not seen since the second half of 2000. The Midwest region had the highest overall homeownership rate in Quarter 1, 2009, at 70.7 percent, while the West had the lowest rate, at 62.8 percent.

The data also show that the overall rental and homeownership vacancy rate in the U.S. was 2.7 percent in the first quarter of 2009. The rate is down slightly from a high of 2.9 percent in the first and fourth quarters of 2008, but is significantly higher than it was several years earlier. After ranging from 1.6 to 1.9 percent for nearly a decade, the rental and homeownership vacancy rate began rising in 2005 and has not fallen below 2.0 percent since the fourth quarter of that year.

## Calendar

The **Minnesota Council on Economic Education** presents the following professional development opportunities for financial educators. Both events will be held at the St. Paul campus of the University of Minnesota.

**Personal Finance Camp.** July 8–10. A workshop where middle and high school teachers learn innovative ways to engage students in learning about personal finance.

**Second Annual Conference on Teaching Economics and Personal Finance.** August 11–12. Master teachers, university professors, and industry leaders will share effective learning activities and teaching methods for K-12 instructors.

For additional information about these events, visit the calendar page at [www.mcee.umn.edu](http://www.mcee.umn.edu) or call 612-625-3727.

**Rocky Mountain Regional Native American Economic Development Summit.** Theme: "Making it Work in Indian Country." August 12–13, Billings, Mont. Sponsored by the Office of Indian Energy and Economic Development (a division of the Bureau of Indian Affairs of the U.S. Department of the Interior) and the Native American Development Corporation. Additional information: visit [www.nadc-nabn.org](http://www.nadc-nabn.org) or call 406-259-3804.

**Mobilizing Rural Communities: The Northern Plains Initiative Conference.** October 8–9, Billings, Mont. An opportunity for people from diverse backgrounds to unite for the common cause of advocating and implementing strategies that will help build a strong and healthy Northern Plains region. Sponsored by Rural Dynamics Incorporated. Additional information: visit [www.ruraldynamics.org](http://www.ruraldynamics.org).