communities and banking
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FEATURE STORY

From Public Assistance to Self-Sufficiency: The Role for the Microenterprise Strategy

Microenterprise programs are being created at a fast pace, with public and private support. These programs provide both access to business training and small amounts of credit to people who cannot obtain these resources any other way. The Aspen Institute's *1996 Directory of U.S. Microenterprise Programs* profiled 328 programs in 46 states that facilitated the creation and growth of over 36,211 businesses in 1995 alone, mostly among low-income people.

The mandate of the recent welfare legislation to move recipients from welfare to work has motivated policymakers and analysts to consider the potential of self-employment, particularly for low-income women heads of households. Since 1992, when President Clinton pledged $382 million to support microenterprise programs and community development banks, microenterprise programs have received a great deal of attention as an important element of the welfare-to-work strategy. Can microenterprise programs be used as a means to effectively enable low-income heads of households to become economically self-sufficient?

Many low-income household heads pursue self-employment as a way to make ends meet. However, this group — particularly the poor women who make up the majority of this population — often lacks access to key self-employment resources such as credit and training. These are precisely the resources that microenterprise programs seek to provide. The research detailed in this article shows that although microenterprise programs clearly play a critical role in growing and stabilizing the self-employment activity of low-income people, self-employment is neither a certain nor an easy route off public assistance. Those who become self-employed often do so because they perceive self-employment to be their best available option; those who do not become self-employed often make this choice because a better option presents itself.

Programmatic and Client Diversity

The conclusions presented here draw upon case studies I have prepared of three U.S. microenterprise programs that specifically target low-income entrepreneurs: Women’s Initiative for Self Employment (Women’s Initiative) in San Francisco/Oakland; the Institute for Social and Economic Development (ISED), which operates throughout the state of Iowa and targets public assistance recipients; and the Women’s Housing and Economic Development Corporation (WHEDCO), which operates in the South Bronx, New York. The case studies included interviews of program participants as well as staff.

These case studies illustrate a wide range of entrepreneurs and potential entrepreneurs who are current or former public assistance recipients. This research also illuminates the common characteristics of those

who are able to use self-employment to help them make the transition from public assistance. Those who do engage in self-employment tend to have solid support networks, some prior experience in their line of business, and a strong desire to exit public assistance.

Amy Anderson, a former public assistance recipient and ISED microenterprise program participant, is the owner of KidsWorld Day Care in Carlisle, Iowa. Ms. Anderson received the 1998 Welfare-to-Work Entrepreneur of the Year Award from the U.S. Small Business Administration. Photo by Paul Gates.

Further, interviews with program staff and nonparticipant observation at programs illustrate the kinds of services and support that these entrepreneurs require. In most cases, income generated from self-employment has been a necessary but not sufficient ingredient for those who have made the transition from public assistance. Those who do not pursue self-employment either lacked these resources or chose not to pursue the self-employment route because they had a better option, usually either marriage or a job.

Program participants range widely in terms of the reasons they first began receiving public assistance and the reasons they pursued self-employment. There appear to be three main categories of people who pursue self-employment through microenterprise programs:

- "true entrepreneurs" who would always prefer to work for themselves even if this does not appear to be an economically rational decision (that is, they may work for lower wages and for longer hours in self-employment than they would by getting a job);
- those who pursue self-employment because they believe it is their best available option;
- and those who consider self-employment at a critical juncture in their lives but then decide against self-employment because it is not their best available option.

The interview data suggest that public assistance recipients who are able to use self-employment as an exit strategy appear to be a niche population within the larger universe of people who rely on public assistance. The micro-entrepreneurs who have been able to leave public assistance hold three characteristics in common:

- their ability to tap into strong support networks;
- experience or training in their line of business; and
- fierce determination.

What Is "Success"?

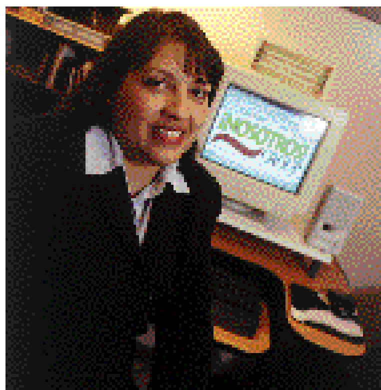
Success does not always mean starting a business or maintaining and growing that business permanently. Many program staff have found that during training, participants often realize that they are not ready to start businesses, or that self-employment is not their best option. However, those who do not choose to pursue self-employment obtain the skills and self-confidence necessary to use other routes to achieve self-sufficiency, such as mainstream employment. Writing a business plan — which two of the three programs require — calls for research skills, writing skills, and the ability to work with numbers in order to forecast costs and sales. Program staff work with participants to present their ideas out loud and on paper, clearly and convincingly. If nothing else, the experience of going through microenterprise training appears to give public assis-

tance recipients, whose spirits are often broken, a critical jump start. Many microenterprise program participants who did not start businesses claimed that the training they received gave them a boost in self-confidence and motivated them to change direction. Many people also research the option of self-employment but do not pursue it further.

Others use self-employment temporarily as a way to generate income. Two of the women who currently operate home-based daycare businesses are also attending degree programs in order to enter the job market with better credentials. Their businesses allow them to earn income while also caring for their own children. Another woman closed her home-based desktop publishing business when one of her clients offered her a full-time job. She made the transition from self-employment to a more stable, salaried job with benefits.

In this process, program staff often become brokers, helping clients to determine their best option. Staffers at all three programs claimed that they do not encourage people to start businesses, but rather help them to assess whether self-employment is a good fit. If it is not, then staffers direct clients to other resources. Staffers at all three programs also believe that those who do go through training but do not start businesses take valuable skills with them to the workplace. Both ISED and WHEDCO are currently working on ways to formalize these links between this group of clients and the mainstream economy.

Self-employment is a transition strategy or a partial solution for many precisely because it is often insecure and unstable. Although many of the entrepreneurs interviewed for this research have used self-employment to leave public assistance entirely, the self-employment income they generate remains low and is often unstable. Many of these people continue to package income from a variety of sources. Others require years to make the transition completely off public assistance because they cannot generate sufficient income from their fledgling businesses.



Laura Castro de Cortez, an ISED microenterprise trainee, is the owner of a consulting firm, Nosotros Group, Inc., in Des Moines, Iowa. Her microenterprise assists employers and businesses throughout Iowa in marketing to the state's growing Hispanic community. Photo by Paul Gates.

Most of the entrepreneurs interviewed were income packagers on public assistance, who continue to combine their self-employment income with income from other sources. These families continue to struggle and to think of innovative ways to make enough money to make ends meet. This finding supports other research that shows that neither low-wage work nor public assistance on its own is sufficient for families to live on. Thus, self-employment earnings, while often meager, are important sources of additional income which help stabilize family incomes.

Microenterprise Programs and Welfare Policy

These findings lead to the recommendation that self-employment should be supported as an option for that segment of the public assistance population that is prepared to pursue it. For those interviewed in this study, self-employment has allowed them both to support their families financially and to be present as parents. Participation in microenterprise programs has helped them maximize the financial return from their business and, in many cases, to access other critical resources such as credit, emotional

support, and help with legal and accounting matters. Although the participants who have made the transition from public assistance to self-employment are not representative of the larger public assistance population, the support they have received through microenterprise programs has been critical to their success.

Staff at all three programs agree that self-employment will only work for a small percentage of the public assistance-reliant population. However, they also agree that it is important to continue developing strategies that will work for different groups rather than searching in vain for a single silver bullet. Support for a variety of routes makes sense, given the range of reasons why people become dependent upon public assistance in the first place.

Brigitte Charlton, a graduate of the WHEDCO microenterprise program in New York, is the owner-operator of Good-2-Go, a small catering business. The former public assistance recipient now earns a living wage by supplementing her microenterprise income with wage work for a temporary catering agency. Photo by Donna Rubens.

At the same time, states vary widely in terms of their treatment of self-employment. In Iowa, ISED has a very good relationship with the Department of Health and Human Services, and all AFDC/TANF recipients receive a flyer with information about the program with their checks. In New York, attending WHEDCO classes is not an allowable activity, and some of the entrepreneurs I interviewed were cut off from welfare benefits completely because they decided to pursue their businesses rather than taking a menial job with the Work Experience Program (WEP). More states need to coordinate efforts with microenterprise programs for low-income people, rather than placing obstacles in front of potential micro-entrepreneurs. This will allow more individuals on public assistance to access the training and credit resources and ultimately pursue self-employment.

In addition, the other benefits that program participants receive should be documented and valued by funders, policymakers, and evaluators. Most programs do not have the resources or incentives to track participants who do not start businesses. Funders should earmark funds for evaluation that includes this group, since they appear to gain important benefits from going through the process of participating in a microenterprise program.

Whether or not clients start businesses, many of the interviewees claimed that they were attracted to self-employment training because — unlike traditional public assistance-to-work programs — microenterprise programs prepare people for work that offers them hope. For example, New York's WEP participants work cleaning parks and doing maintenance in housing projects — jobs that pay little and are not challenging. In contrast, microenterprise programs train participants to think critically, prepare for jobs they want to do and, perhaps most important, help them to think about themselves and their careers in the long term. All of these hard-to-measure outcomes are critical first steps on the circuitous journey to self-sufficiency.

—by Lisa J. Servon
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CONSUMER FOCUS

For most seniors, their home is their most valuable financial asset. After years of dutifully making monthly payments, these elderly homeowners have paid off their mortgages and are now sitting on a treasure trove of accumulated wealth — the equity in their homes. And while many low- and moderate-income elderly homeowners may be cash poor — living on fixed incomes and dependent upon Social Security — they are quite often equity rich.

This situation makes many elderly homeowners, particularly those in lower-income groups, vulnerable to attack from *equity predators*: mortgage lenders and their associates who target equity-rich seniors during times of financial distress. These disreputable lenders engage in a practice known as *equity stripping*, which usually leads to more financial trouble, foreclosure, and eviction of the elderly homeowner. Unlike legitimate mortgage lenders, equity predators convince elderly homeowners to take on secured loan products that are unsuitable, based on their financial needs and income, eventually stripping the equity out of their homes.

Predatory lenders appear to target specific areas, including low- and moderate-income neighborhoods, preying on the relative lack of financial sophistication of elderly residents who may need financing to pay off mounting bills or to make necessary home repairs. While countless different techniques are available to defraud seniors of their built-up home equity, several methods are becoming very popular. And with the incredible surge in the secondary mortgage market, more and more predatory lenders are finding a low-cost source of liquidity to fuel their equity-stripping activities.

The Scope of the Problem

Exactly what is a "predatory" mortgage? Gary Klein, an attorney with the National Consumer Law Center (NCLC), defines predatory lenders as "those who make loans to a homeowner which are unsuitable to that homeowner's particular financial situation." Unlike more reputable lenders, predatory lenders make high-interest loans with exorbitant up-front fees to borrowers without regard to their ability to repay the loan. Engaging in asset-based lending, they usually target elderly homeowners because they are more likely to be equity rich, but cash poor.

Norma Moseley, a foreclosure prevention specialist and Director of Housing Programs at Boston-based Ecumenical Social Action Committee, Inc. (ESAC), characterizes predatory loans as those where "the loan payment is almost guaranteed to exceed the ability of the individual to pay the loan, but where there's enough equity to secure the lender's interests and the [lender] can get points and some fees up front." William J. Brennan, the Director of the Home Defense Project of the Atlanta Legal Aid Society, notes that many of the so-called predatory mortgage loans are made with a 70 to 80 percent loan-to-value ratio (LTV), in order to preserve a collateral cushion for the lender. Thus, many consumer advocates and industry critics argue that predatory lenders create a "win-win" situation: They make money either through the high interest and fees or through foreclosure following default.

While no exact measure of the number of predatory loans is available, some proxy measurements may help illustrate the scope of the problem. Michael Hudson, in a report prepared for the AARP, uses the number of class action suits brought against mortgage lenders as a proxy for predatory mortgage activity. He estimates that in the past decade, over 1 million homeowners have been included in various class action lawsuits against predatory mortgage lenders.

Similarly, examining the details of pending suits and financial settlements paid by the large mortgage lenders involved sheds some light on the problem. For example, in the mid 1990s Fleet Finance, Inc., pledged more than $120 million in order to settle a class action suit brought by the Georgia Attorney General, representing approximately 18,000 borrowers who claimed abuses. The Massachusetts Attorney General's office recently settled a suit with Louisiana-based United Companies Financial Corp., which alleged that the company had charged up to 10 points and high broker fees on mortgage products. The firm agreed in October of 1998 to pay restitution to Massachusetts borrowers, totaling nearly $850,000. The Massachusetts Attorney General is also currently suing California-based First Alliance for charging excessively high points (up to 23 points on some loans) on approximately 300 debt-consolidation home equity loans.

Recent surveys of bankruptcy filings among the elderly are also instructive. In one 1998 study, 11.4 percent of elderly respondents (age 50 and older) stated that they entered bankruptcy because of creditor actions; this included persons who thought they were cheated by creditors. Among younger bankruptcy petitioners the figure was only 5 percent. Finally, reports from consumer advocates and legal services providers also demonstrate a rise in predatory lending practices. In a survey of Legal Services clinics in 25 cities across the country, over three-fifths reported that they saw an increase in older persons being targeted for "unfair" mortgage loans. In that same survey, 40 percent of complaints about mortgage abuses involved home improvement financing and 20 percent involved second mortgages.

Anecdotal evidence from consumer advocates and credit counselors points to a noticeable rise in elderly homeowners being victimized through mortgage-oriented scams. Reports of these abuses have intensified primarily in those parts of the country

experiencing huge escalations in real-estate prices. Mr. Brennan of Atlanta Legal Aid reports that he sees approximately two to three new elderly clients every week who have predatory second mortgages. In New England, the Greater Boston area has experienced an increase in seniors succumbing to unsuitable or unfair second mortgages. At ESAC, located in Boston's Jamaica Plain neighborhood, Norma Moseley has seen a sharp rise in her caseload. Last year alone, ESAC saw 80 clients who were threatened with foreclosures stemming from second mortgage abuses; 35 were aged 65 and over. Across town at the offices of Homeowner Options for Massachusetts Elderly (HOME), Executive Director Len Raymond notes that the number of clients seeking foreclosure relief has grown rapidly. Since August of 1998, HOME has been contacted by at least 100 low- and moderate-income seniors seeking foreclosure prevention assistance. Many of these cases involve second mortgages arranged by home repair contractors on behalf of subprime lenders.

The Explosion of Subprime Home Equity Lending

The increased incidence of equity stripping abuses has taken place amidst an overall surge in the subprime home equity lending market. Since the late 1980s, demand for home equity loans and lines of credit has increased rapidly, as consumers attempt to consolidate mounting amounts of debt. Today, advertisements for home equity lending products proliferate in the broadcast and print media, as lenders aggressively court homeowners. The market is dominated by a plethora of nonbank finance companies operating on a national basis. Recently, banks have become more involved in this type of lending, often through nonbank affiliates.

Since nonbank finance companies have no deposit base, they make use of the liquid asset-backed securities (ABS) market. By packaging and selling these loans, home equity mortgage lenders are able to tap into a relatively cheap source of cash that can be recycled to originate more home equity loans at higher interest rates. As banks enter the home equity lending market, they too are turning to securitization, since deposit growth is often inadequate to meet growing consumer demand for home equity products. Meanwhile, investor demand for these securities has soared, fueling the entrance of still more players. According to the Bond Market Association, in 1995 approximately $33.1 billion in home equity ABS was outstanding; by 1998 that figure rose to an estimated $125 billion, nearly 20 percent of all ABS outstanding.

Traditionally, real-estate-secured lending is among the safest types of lending activity. As long as real-estate values do not plunge and LTV ratios remain within a 70 to 80 percent range, most home equity lenders are engaged in a relatively low-risk lending activity. But borrower characteristics are beginning to make home equity lending more risky. According to the Consumer Bankers Association, in 1995 about 35 percent of all home equity lines of credit and 40 percent of all closed-end home equity loans were for debt consolidation; prior to 1992, most home equity financing was for home improvement. Furthermore, with demand for debt consolidation products growing and lenders continuing their aggressive competition, the pool of more creditworthy home equity borrowers is shrinking. In 1997 the Federal Deposit Insurance Corporation (FDIC) warned that the dramatic growth of the home equity loan securitization market during the 1990s has been accompanied by lax underwriting standards among lenders.

A growing number of mortgage companies and banks have entered the *subprime* home equity market, as more marginally creditworthy applicants apply for financing. Subprime loan products offer borrowers with less than perfect credit the ability to access credit markets. They can help some borrowers with impaired credit improve their ratings and eventually qualify for more conventional loans. Subprime lending is also a very

lucrative business, in spite of the higher risks involved. In 1997, the FDIC reported that yields on some subprime assets were as high as 15 to 30 percent. Lenders charge subprime borrowers higher interest rates to compensate for higher risk, creating the potential for greater profits than from more conventional loan products. For example, subprime automobile lenders charge interest rates ranging from 15 to 25 percent; subprime credit card issuers charge rates anywhere from 18 to 40 percent.

Likewise, the market for subprime home equity loans is growing rapidly, with interest rates ranging from 12 to 16 percent compared to rates on conventional home equity loans of 8 to 9.5 percent. By the first half of 1997, subprime home equity loans accounted for nearly 15.5 percent of total home equity lending. That figure is expected to rise since Americans are accumulating more and more debt, with both credit card delinquencies and bankruptcy filings approaching record levels. As the ranks of consumers with bad credit swell, so will the demand for subprime home equity products.

The Elderly Homeowner as Target

The rapid growth of the subprime home equity lending industry offers new opportunities for disreputable operators to enter the fray. Unlike their more legitimate subprime lending counterparts, these lenders are not offering a valuable service to marginally creditworthy borrowers. Many of these unseemly practitioners engage in equity stripping, and they appear to be preying on elderly homeowners in low- and moderate-income communities.

Why elderly homeowners? While financial fraud can and does affect consumers of all age groups and income levels, low- to moderate-income seniors may be more at risk for particular types of mortgage scams, for several reasons.

First and foremost is the higher degree of homeownership among older Americans. According to the American Association of Retired Persons (AARP), in 1995 20.8 million households were headed by seniors, with 78 percent of these seniors owning their homes. About 80 percent of all elderly homeowners own their homes free and clear, with no prior liens on their properties. Low- and moderate-income seniors also have a high degree of homeownership: In 1997 approximately 58 percent of older Americans with incomes below the federal poverty level owned their homes. In contrast, many younger homeowners either are paying off their home purchase mortgages or are more likely to have higher levels of debt secured by their homes. They have less equity in their homes and are therefore not attractive targets.

Elderly homeowners have also benefited from the tremendous appreciation in home values. In many urban real estate markets, including the Greater Boston area, property values in low- and moderate-income neighborhoods have soared during the past decade. Thus, many low-and moderate-income seniors have seen their home equity grow. This untapped equity can serve as an income buffer against financial distress brought on by job loss, retirement, or sudden illness. It can also attract the attention of equity predators.

Many older homeowners also live in homes that are older and in need of serious repair. The AARP reports that in 1995, about 53 percent of all homes owned by seniors were built prior to 1960; only 35 percent of younger homeowners lived in homes built

prior to 1960. According to the U.S. Department of Commerce's *American Housing Survey of 1995*, an estimated half of all homeowners aged 65 and older had repairs done to their homes. Unlike their younger counterparts, elderly homeowners are less likely to undertake home repair projects on their own. The Department of Commerce found that in 1995 eight in ten homeowners 75 and older did none of their home repair work themselves. Among homeowners aged 65 to 74, roughly 64 percent also hired contractors for all of their home maintenance and repair work. Since elderly homeowners are more likely to need home repair assistance, they are an attractive target for contractors who serve as brokers for high-rate lenders.

Elderly homeowners are also finding themselves deeper and deeper in debt, which adds to their vulnerability. Consumer advocates and credit counselors have noted a rise in credit card indebtedness among seniors. "Back when I started in 1964," explains ESAC's Ms. Moseley, "you never saw elderly people with any bills at all. Now you are seeing elderly people with anywhere from $46,000 to $68,000 in credit card debt." Lower- income seniors are more often highly leveraged as well. HOME's Mr. Raymond states, "Our average client has credit card debt of $7,000 on an income of maybe $11,000 or $12,000." The increased indebtedness is partly the result of aggressive marketing by credit card companies, and partly the result of changed spending habits among the elderly.

Traditionally, those over age 65 have been the most debt averse age cohort. Experts believe that more seniors are starting to run up credit card debt in order to cope with rising bills and falling incomes. For example, seniors may find themselves in need of cash to pay unexpected medical bills not covered by Medicare, Medicaid, or health insurance plans. The death of a spouse can also lead to a significant drop in household income and eventually to credit card abuse. With mounting credit card payments and impaired credit, desperate elderly homeowners may be receptive to solicitations and advertisements from subprime home equity lenders.

Another possible reason is that some low- and moderate-income seniors may believe, often incorrectly, that they would not be able to obtain financing from mainstream financial institutions. The NCLC's Mr. Klein notes, "There is a percentage of [elderly] people who perceive, based on [past] experiences that they are not a welcome customer at the local bank." They are more likely to seek out subprime lenders, particularly those who offer no credit checks, hassle-free loan applications, "pre-approved" or "easy" credit. In fact, predatory mortgage lenders often look for victims who self-identify as having credit problems.

More troubling is the tendency of elderly Americans to be less knowledgeable about their rights under consumer protection laws. Surveys conducted by the AARP found that people aged 65 and over are less knowledgeable about their rights under fair lending regulations, such as the federal Truth in Lending Act (TILA). This includes understanding their ability to cancel a contract. Among those 50 to 64, respondents were more likely to correctly answer questions regarding TILA and other fair lending laws, reflecting perhaps a greater degree of financial sophistication in this age cohort.

Whether they clearly understand their rights or not, older homeowners are less likely to take action against a predatory lender or home contractor. In testimony before a 1998 U.S. Senate hearing on equity predators, the daughter of an elderly couple explained that her parents felt "too embarrassed to tell anyone, believing that they had been duped." Feelings of shame and fear often keep elderly homeowners from getting help, even in the face of imminent foreclosure. George Gaberlavage, Senior Adviser at the AARP's Public Policy Institute, offers another explanation. He states that "older people will see that they got into a problem and blame themselves rather than the perpetra-

What to Watch Out For: Common Practices of Equity Predators

While equity predators use a wide variety of tactics, a few loan terms and practices are common. Here's what consumers should watch out for:

Prepayment Penalties – Charging penalties when a borrower pays off a loan early. Exorbitant prepayment penalties impede attempts by homeowners to refinance or sell their homes once they have gotten into a predatory loan. Some predatory lenders charge prepayment penalties equal to their usually high closing costs.

Balloon Payments – Loans are structured such that low monthly payments cover only the interest and not the principal of the loan, which is due in a large, lump-sum payment at the end of the loan term. For most low- and moderate-income elderly homeowners, such payments are impossible to repay, making foreclosure imminent.

Credit Insurance Packing – Charging high premiums for credit insurance, including credit life insurance, credit disability insurance, or involuntary unemployment insurance. With actual loss payouts rather low, these insurance premiums are usually unnecessary and serve to inflate the loan cost. In some cases, lenders have over-insured borrowers by providing insurance for total indebtedness (including principal and interest), rather than insuring repayment of loan principal. Some lenders offer insurance provided by an in-house insurance subsidiary.

Flipping – Successive, repeated refinancing of a loan. The balance on an existing loan is rolled into a new loan, instead of originating a separate new loan. This almost always increases the costs to a borrower. The extra fees and closing costs from refinancing are also usually added to the expanding principal amount.

Negative Amortization – Interest on the loan is structured such that it is not amortized over the life of the loan. The monthly payment is insufficient to pay off the accrued interest, leading to a monthly increase in the principal balance. Predatory lenders employ negative amortization often in conjunction with balloon payments.

Mandatory Arbitration Clauses – Creates an unfair advantage for the lender, since arbitration does not allow for injunctive relief and punitive damages. Inserting these clauses in the loan documents effectively prohibits consumers from suing a predatory lender in the event of a dispute.

Falsified, Fraudulent, or Forged Applications – Lenders, home improvement contractors, and others have been known to falsify borrower income to qualify for larger loans. In most cases, loan documents are drafted to conceal important terms, such as fees and prepayment penalties. Some equity predators have even forged loan documents.

Sources: The National Association of Consumer Advocates (NACA) and the National Consumer Law Center (NCLC)

tor, because they are concerned they will be deemed incompetent."

The circumstances outlined above can be compounded by other factors such as illiteracy, lack of financial sophistication, and diminished mental capacity from the onset of Alzheimer's and other age-related illnesses. All of these factors combine to make elderly homeowners ideal candidates for the high-rate, high-fee loan products and services that are the bread-and-butter of predatory mortgage lenders and their associates.

Abusive Loan Practices

Equity predators use a wide variety of tactics (see box above), which are generally not illegal. It could be argued that some of these practices are necessary to compensate lenders for the increased risk in lending to low- and moderate-income seniors. For the most part, vulnerable elderly homeowners are succumbing to unsuitable second mortgages brought on by a need for debt consolidation or home improvement financing. Some seniors have reported trouble with high-cost reverse mortgages as well (see box

on page 16).

In the most common scenario, elderly consumers are convinced to take out home equity loans to cover immediate financing needs, including home improvement financing (see box on page 13). Home equity loans can be extremely beneficial for consumers. As noted earlier, a growing number of consumers are using home equity loans as a means of refinancing higher interest rate credit card and consumer debt. Most conventional home equity loans charge interest rates between 8 and 9.5 percent, usually without closing costs and application fees. These loan products are available to those borrowers with good credit records and sufficient income to repay the principal. The benefits from a home equity loan are greatly dependent upon finding a loan product that offers a lower total interest rate and a term that matches a homeowner's current mortgage.

However, a home equity loan may not be a very suitable loan product for low- and moderate-income elderly homeowners. Consumer advocates and credit counselors routinely warn seniors about the dangers of using built-up home equity for consolidating unsecured debt. Most elderly homeowners have usually paid off their first mortgage years ago, and their home is perhaps their biggest financial asset. Thus, there are few potential benefits for these consumers in converting large amounts of unsecured personal debt into debt secured by their valuable home equity.

A home equity loan turns from being a convenient product to a more predatory instrument because of several practices. One of these is charging high interest rates. Elderly homeowners are more likely to be charged higher interest rates even by legitimate home equity lenders, because of their inadequate incomes. If they have been having problems with credit card debt, then their lower credit rating will also lead to higher rates. The NCLC's Mr. Klein defines "high rate loans" as those exceeding the normal rate for home equity loans by 5 percent. Most consumer advocates have seen interest rates that far exceed this level.

Predatory lenders also engage in *loan packing*. They load their loans with excessively high fees, points, closing costs, and credit insurance premiums. Oftentimes the up-front fees make the loan much more onerous than the high interest rate. The fees are usually financed as part of the loan principal, greatly inflating the overall cost of the loan for the consumer. The NCLC's Mr. Klein notes that a predatory lender usually charges fees that are "out of proportion to the amount of work that the originator is putting into a loan." In his many years of practice, Mr. Klein has seen loans with fees of up to 10 points taken up-front and financed as part of the loan principal, and even loans with fees exceeding 20 percent of the total loan amount. Credit life insurance offers these lenders another opportunity to pack their loans. The benefits of credit life insurance are debatable, yet many predatory lenders convince elderly homeowners that it is necessary to close the loan. Predatory lenders will usually finance the high premiums into the loan principal, inflating the cost to the borrower. Some equity predators conceal details about insurance premiums in the closing documents, or imply that the insurance comes with the loan product.

Another abusive practice is *loan flipping*. This is where the lender starts the elderly homeowner with one loan, and then induces the borrower to keep refinancing the balance. Even though the interest rate may go down with each successive refinancing, the old loan balance is rolled over into the new loan, inflating the total principal amount until debt service payments are no longer affordable. Predatory lenders may also include exorbitant, hidden prepayment penalties. These are designed to keep the homeowner in the loan, even if that would eventually lead to greater financial hardship and foreclosure. As a loan is flipped repeatedly, the prepayment penalties and other refinancing fees (including additional closing costs, points, and so on) also grow. ESAC's Ms. Moseley

The Home Improvement Scams

Perhaps the most controversial method used by equity predators relates to the greater demand among elderly homeowners for home repair services. An AARP consumer survey found that among all ages groups, 23 percent surveyed claimed that home repair contractors "always try to take advantage of the customer." Newspaper articles and television consumer reports are replete with stories of elderly homeowners being conned by door-to-door home improvement salespeople.

In the more egregious cases, predatory subprime lenders have actually used contractors as mortgage brokers in low- and moderate-income neighborhoods. Typically, an elderly homeowner is approached by a contractor, who explains that the home is not up to municipal code and in need of repairs. When the homeowner states that he/she cannot afford the repair project, the contractor arranges financing through a subprime home equity lender. Some contractors offer retail installment agreements and sign up eager homeowners right on the spot. In other more extreme situations, contractors have been known to drive elderly homeowners to the local office of a mortgage brokerage firm.

Contractors often pressure seniors to sign documents without explaining that they are indeed loan papers. In most instances, homeowners are not told that the lender is prepared to attach a lien on their property, or that they should have a lawyer present to review any loan papers. "People have no idea that they are getting a mortgage loan after they accept home improvement services," explains Atlanta Legal Aid's Mr. Brennan. "They don't realize that the contractor is just a bird-dog for the lender."

Some contractors have even falsified loan applications for elderly homeowners, overstating income in order to qualify for a large loan. Consumers are often pressured to sign these loan papers, especially if the repair work has already begun on their home. The elderly homeowner gets stuck not only with shoddy or incomplete repair work, but with an oppressive high-interest, high-fee second mortgage.

explains, "They [consumers] get into a refinancing spiral. The debt just goes up and up. They are maxed out with no more equity in their house."

Regulatory Responses, Legal Remedies and Options

What defenses do consumers have in the face of predatory mortgage abuses? Several federal and state statutes may provide some protection (see box on page 14).

The majority of abuses against low- and moderate-income seniors involve improper disclosures. The federal Truth in Lending Act (TILA) requires creditors to disclose credit terms and the cost of consumer credit as an annual percentage rate (APR). TILA disclosures also offer borrowers a mandatory right of rescission on any loan secured by their principal residence. Thus, under TILA, borrowers can cancel a home loan contract within three days.

TILA was amended by the Home Equity Protection Act of 1994 (HOEPA). Under the HOEPA amendments, creditors must provide additional disclosures for all loans secured by a consumer's home. HOEPA amendments also prohibit lenders from using certain loan terms on home-secured loans that meet a defined threshold. Currently, the threshold is met by any home secured loan with either:

- an APR that exceeds by more than 10 percentage points the yield on Treasury securities of comparable maturity; or
- total points and fees payable by the consumer that exceed the greater of 8 percent of the total loan cost or $400. (The $400 figure has been adjusted annually in accordance with the Consumer Price Index (CPI). For 1999 it stands at $441.)

Consumer Laws & Regulations

These are some of the pertinent consumer laws and regulations with regard to cases of equity stripping.

- **Truth in Lending Act or Regulation Z (TILA)**: Requires uniform methods for computing the cost of credit and disclosing credit terms. Gives the borrower the right to terminate certain loans secured by their primary residences. Amended in 1994 through the Home Equity Protection ACT (HOEPA), to include prohibitions on certain terms in home-secured loan products that meet defined thresholds for interest rates and fees. TILA also includes specific prohibitions regarding reverse mortgage products.
- **Equal Credit Opportunity Act or Regulation B (ECOA)**: Prohibits discrimination in credit transactions on several bases, including age. Evidence of discrimination falls into one of three categories: overt disparate treatment, comparative disparate treatment, and disparate impact.
- **Real Estate Settlement Procedures Act or Regulation X (RESPA)**: Requires that the nature and costs of the real estate settlement process be disclosed to borrowers. In particular, RESPA protects borrowers from abuses from kickback payments between lenders and their associates.
- **Unfair or Deceptive Acts or Practices Laws**: Statutes at the state and federal level which prohibit lenders and their agents from engaging in unfair or deceptive practices. Nonbank finance companies are regulated under a similar statute by the Federal Trade Commission (FTC).

For home-secured loans that meet or exceed these levels, creditors are prohibited from offering certain terms. These include balloon payments for loans of less than five years, negative amortization schedules, interest rate increases following defaults, and prepayment penalties. In addition, a creditor is prohibited from originating loans based solely on the underlying collateral value and not based on the borrower's ability to repay the loan. Ability to repay the loan is determined from the borrower's current or expected income, employment status, and current obligations. Restrictions are also placed on the compensation of home improvement contractors from the proceeds of a high-rate, high-fee home equity mortgage.

State and federal Unfair and Deceptive Practices Acts offer consumers some additional protection. The Federal Trade Commission (FTC), which regulates most nonbank finance companies, recently brought a suit against Capital City Mortgage Company of Washington, DC. In the suit, the FTC alleges that Capital City Mortgage Company's lending practices violated the federal FTC Act which prohibits unfair and deceptive business practices. The complaint alleges that the lender deceived many low-income, minority, or elderly borrowers about key loan terms, including misrepresenting products as amortizing loans when in fact the borrowers received interest-only balloon loans secured by their homes. With regard to loan flipping and home improvement scams, these statutes may also provide recourse. The NCLC's Mr. Klein explains that under an unfair and deceptive practices argument, borrowers could claim that the lender deliberately encouraged the multiple refinancings and hid the fees through an advertising practice that was designed to mislead them about the costs of refinancing. If a home repair contractor misrepresented terms of financing, then perhaps he/she is liable as well.

The Equal Credit Opportunity Act (ECOA) also makes it unlawful for any creditor (including nonbank finance companies) to discriminate against an applicant on a prohibited basis regarding any aspect of a credit transaction, including pricing. Borrower age is one of the prohibited bases stipulated in ECOA. The Fair Housing Act (FHA) provides similar proscriptions regarding any residential real-estate-based transaction, including home equity loans. Thus, if a lender steers elderly homeowners into subprime home equity products as opposed to more conventional products, then that lender may have violated provisions of ECOA and FHA. Regulatory action and possible civil litigation may follow.

Despite the regulatory prohibitions, problems still remain. The FTC's Assistant Director for Financial Practices Peggy Twohig explains that it's unclear "whether the laws on the books are adequate to address all of the problems we are seeing." And proving these regulatory violations is not always so easy. Consumer advocates note that many predatory lenders have begun to fine-tune their approach, making it harder to catch violations. ESAC's Ms. Moseley states that, "four years ago, you used to be able to find TILA violations in almost all their [predatory lenders'] disclosures. Now they've cleaned up their act. You have to get them on more subtle things that are much harder to prove, such as usurious rates."

By far the most common method of dealing with an abusive home equity lending situation is to file for bankruptcy. Harvard Law School Professor Elizabeth Warren emphasizes that bankruptcy "provides some breathing room, by stalling the foreclosure process." In addition, bankruptcy clears out any unsecured debt and prioritizes claims to a consumer's property. If a homeowner can come up with a plan to repay the secured creditors, he/she can save the home.

However, bankruptcy may still afford little real protection for senior homeowners. "The bankruptcy laws were written with the paradigm of an able-bodied, younger individual in mind — one who has been out of work for some period of time or has experienced a major financial setback, but whose income will rise in the future," explains Professor Warren. "The chances of an elderly person being able to do this, with a lower likelihood of having their income rise, are extremely slim." Many low- and moderate-income seniors are thus unable to patch together sufficient income to propose a suitable repayment plan and cannot avoid foreclosure.

Many foreclosure prevention specialists try to have their elderly clients file for bankruptcy in order to stop the impending foreclosure, and then eventually get them refinanced with a more conventional lender. For example, at ESAC, Ms. Moseley attempts to get her elderly homeowner clients out of bankruptcy and qualified for a lower-interest loan from a conventional mortgage lender. She explains, "If you can get that debt down, and if the original appraisal on the home is OK, you can then refinance into a better loan." ESAC works with a consortium of banks to arrange better terms on some loans, thereby staving off foreclosure.

Borrower Beware

Given the extent of current regulation, are more stringent disclosures really the answer? Shouldn't these homeowners have used better judgment, and thereby avoided such oppressive loans?

The AARP's Mr. Gaberlavage explains that while consumers are trying to keep abreast of changes in fair lending laws, they cannot keep pace with the changing terms and products offered by predatory lenders. "Rules are confusing, not just for seniors but for consumers of all ages," notes Mr. Gaberlavage. "Many of the terms are not clear and are not being explained to people." The NCLC's Mr. Klein agrees. "People need to look out for themselves. But the flip side of personal responsibility is corporate responsibility. Appropriate regulation," he continues, " would require that lenders be aware of where the limit is in terms of pushing someone to take on a more expensive loan, and thus exercise some care."

Obviously more consumer education efforts are needed, especially those targeted at elderly homeowners. The Massachusetts Community and Banking Council (MCBC) has begun a program in conjunction with foreclosure prevention specialists and credit counselors. Part of the MCBC plan for a massive consumer education program involves

Reverse Mortgages

Reverse mortgages are rising debt, falling equity mortgage products. In a reverse mortgage, a borrower turns home equity into income, usually through monthly cash advances. Borrowers can also receive funds through an immediate lump-sum payment, or from a credit line account from which they can draw upon as necessary. Since the repayment of the loan is based entirely on the borrower's home equity, the borrower's ability to repay based on current income is not a factor. This option is attractive for low- and moderate-income seniors who are cash poor but equity rich.

In most reverse mortgages, the principal on the loan grows as the borrower receives more cash advances and interest is added to the loan balance. The loan ends if the borrower dies, sells the home, or permanently moves away. At the end of the loan, a borrower owes all cash advances received plus interest, up to the lender's recourse limit – in this case the value of the home.

Several reverse mortgage products are available on the market. One of the oldest reverse mortgage programs in the country is operated by Boston-based Homeowner Options for Massachusetts Elderly (HOME). Other reverse mortgage products include the Fannie Mae Homekeeper Mortgage and the federally insured Home Equity Conversion Mortgage (HECM). Most require that borrowers own their home and be at least 62 years old. If a borrower has any outstanding debt against the home, it must be paid off prior to obtaining a reverse mortgage. In addition, most reverse mortgage programs require borrowers to undergo credit counseling prior to application.

Reverse mortgages have proven very helpful for low- and moderate-income seniors who need to pay unexpected bills or arrange for home health care. However, reverse mortgages are not without their problems, and there is potential for fraud. Most reported instances involve excessive fees that increase the loan amount owed, leading to lower cash payments and depletion of any untapped equity.

And reverse mortgages can also be used improperly by borrowers, leading to other problems. "Reverse mortgages are being marketed as lifestyle enhancers," explains Mr. Len Raymond, Executive Director of HOME. "Many seniors begin to take out huge cash advances during their early retirement years until they're tapped out and have no more equity." That is why most credit counselors caution elderly homeowners that a reverse mortgage should be viewed as a last resort.

For more information on how to select the most appropriate reverse mortgage product visit the AARP's National Center for Home Equity Conversion website at *http://www.reverse.org*

television advertisements that would warn consumers — especially seniors — about the dangers of using home equity as collateral and provide them with information to make more informed choices involving home equity products. The purpose is to get the message out to seniors using the same broadcast medium favored by most subprime home equity lenders.

As these efforts get under way, consumer advocates caution elderly homeowners to shop extensively among lenders before entering a second mortgage transaction. They also urge seniors not to assume that they are ineligible for loans from more conventional lenders. Those with impaired credit can work with credit counselors to eventually qualify for loans with better rates and terms. Those needing home repair financing often can apply for municipal, state, and federal agency grants and loans, instead of relying on contractors to arrange loans for them.

A wide variety of other equity products also might be more suitable for low- and moderate-income elderly homeowners. For example, reverse mortgages (see box above) are loans made against the borrower's home, requiring no repayment as long as the borrower lives in the home. Many reverse mortgages offer equity lines of credit so that seniors can take out as much money as necessary to meet their needs. Reverse mortgages are particularly useful if seniors need cash to pay for home health care or assisted living arrangements. In addition, HOME offers a home equity line of credit that is specifically geared to assisting low- and moderate-income seniors. The Senior Equity

Line of Credit (SELOC) is a low-cost product with no points, fixed interest rates, a 10-year term, and a cap of 35 percent LTV. SELOC loan amounts range from $15,000 to $45,000 maximum, thus conserving as much equity as possible. This flexibility enables the elderly homeowner to eventually convert the SELOC into a standard reverse mortgage, after the 10-year term. In providing SELOCs and other reverse mortgage products, HOME works with a consortium of sixty banks, thrifts, and credit unions in Massachusetts.

Most consumer advocates and credit counselors do agree that seniors should not consolidate unsecured debts by taking money out of their homes unless it is absolutely necessary. Subprime home equity lenders, even those who do not engage in predatory practices, do not really explain the risks of tapping into home equity during their prolific advertisements. At stake is not just a house, or a piece of property, but the retirement plan of many an elderly homeowner. Perhaps this is what makes the recent rise in equity stripping against the elderly so troublesome for advocates, regulators, and policymakers alike. As Professor Warren remarks, "It's not the same as just taking money from people. When an older person loses their home, they have lost their financial nest egg."

—by Luxman Nathan
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PRODUCTIVE PARTNERSHIPS

The Role of Funders in University-Community Partnerships

In a June 1997 opinion piece for the *Boston Globe*, Yale University President Richard Levin, stated that colleges and universities "have a responsibility that goes beyond encouraging individual volunteerism; we must participate as institutional citizens in the betterment of our community." This declaration has been echoed throughout the country, at many universities. It appears that we are entering a new era of cooperation between institutions of higher education and communities.

Universities are stable institutions that are rooted in their communities. They support the local economy by producing jobs for community residents, investing in local infrastructure, and procuring goods and services from the surrounding area. Often, universities are the only large institutions left behind when all other industry has left an economically distressed neighborhood. Unlike today's increasingly global enterprises, universities do not usually have the option of relocating their entire campus if their surrounding community suddenly becomes undesirable.

A great number of universities have always had community service elements in their mission statements. In the past, colleges focused on service learning to fulfill this mission. Service learning activities were scattered throughout the organization without the necessary coordination to benefit the community. Faculty who undertook outreach activities received little credit in tenure or promotion decisions.

Fortunately, this view is changing. University presidents are making community partnerships an increasingly valuable aspect of university life. Economic considerations have created a powerful incentive for community engagement. With the disintegration of central cities in recent decades, some urban colleges have experienced declining admissions as prospective students fear for their safety and choose other schools. Accordingly, enlightened self-interest has made these institutions look for ways to improve their surrounding neighborhoods.

At the same time funders, such as foundations and government agencies, are seeking distribution systems for their community development grants. Grantors utilize universities as funding vehicles because these institutions are often the greatest assets of distressed communities. Grantors have discovered that engaging a university with the incentive of funding creates working partnerships that enhance their grant. For a relatively small investment, the resources of the college — faculty, students, and facilities — become available to the community.

Colleges also provide an ideal setting in which to begin politically difficult collaborations. Ayse Can, Senior Director of Program Development for the Fannie Mae Foundation believes that "universities can create a very neutral and democratic environment" for projects that might be viewed with suspicion by community members if undertaken by other actors. For example, the University of Texas-Pan American works with the Mexican-American population in border communities called *Colonios*, without questioning the immigration status of individuals. Government agencies engaging in similar work would not be as welcome in these communities.

Thus, funders are discovering that colleges are uniquely suited to undertake a variety of community partnerships.

HUD COPC Grants

A major program boosting the budding university-community partnership movement is the Department of Housing and Urban Development's Office of University Partnership Community Outreach Partnership Center (COPC) grant. Formed in 1994, the program's mission is to support universities with innovative programs. Many universities have used this HUD program to begin or enlarge partnerships with their community.

The COPC grant is designed to be a multi-pronged approach to partnership which will create capacity and infrastructure for further partnership. Under this program, the university assists its community partners with job creation, child and health care service expansion, enhancements of public safety, and efforts to combat homelessness, among other activities. The key to the COPC program is that it requires the active participation of the university and the community. It has been designed to avoid the traditional approach universities have taken, wherein the institution views the community as a laboratory for urban research.

Under COPC, research may make up only one-quarter of the total dollars granted. Instead, both partners identify and prioritize issues to be addressed. The program is advertised annually and applicants are judged on the level of partnership. Generally, the grant is for $500,000 over three years and is non-renewable.

The grant program is based on six key concepts. First, the residents decide what technical assistance, outreach, and applied research are needed. The institution does not decide what is appropriate for the community. Second, community organizations are partners throughout the project. Third, although the programs do not have to be local, they must directly relate to a targeted neighborhood. Fourth, the research projects must be connected to the outreach projects. They must also be usable by the community, approximately within the grant period. Fifth, students and college faculty should staff the grant activities. Finally, the activities under the grant should not duplicate other activities under way by other groups in the community.

All of these criteria are designed so that universities will form partnerships that take the community's needs and ideal solutions into account. The grant also requires grantees to find matching funds from community groups with the hope that after the three-year grant expires, the program will be self-sustaining.

Among the recipients of HUD's COPC grant, Trinity College in Hartford, Connecticut, stands out for fostering real change in the surrounding neighborhoods. The college was one of the first to receive a COPC grant in 1994. Trinity had already formed a relationship with the local community following the removal of a bus terminal near the college. That freed up a nine-acre tract of land for redevelopment in the neighborhood. Trinity worked with a community group, the City Hospital, and the Institute for Living to develop the land for mutually beneficial use.

In January of 1996 Trinity College announced a $175 million dollar neighborhood revitalization project for this area, including $100 million in new construction and $75 million in low-rate mortgages provided by Fannie Mae Corporation. The central feature of the project is The Learning Corridor, with three new public secondary schools on the old bus terminal land.

The success of this venture led to the development of the Trinity Center for Neighborhoods (TCN), created to work with the Hartford neighborhoods on a range of ambitious projects. To date these projects have included a homeownership policy adopted by the city of Hartford, a web site for the community, and a series of applied research projects by Trinity College faculty to support revitalization efforts. As homeownership is seen as a key to neighborhood stability, the partnership focused on developing housing stock to utilize the low-rate mortgage financing provided by Fannie Mae Corporation. Other projects have included a health and technology center, an early childhood and family resource center, and a boys and girls club.

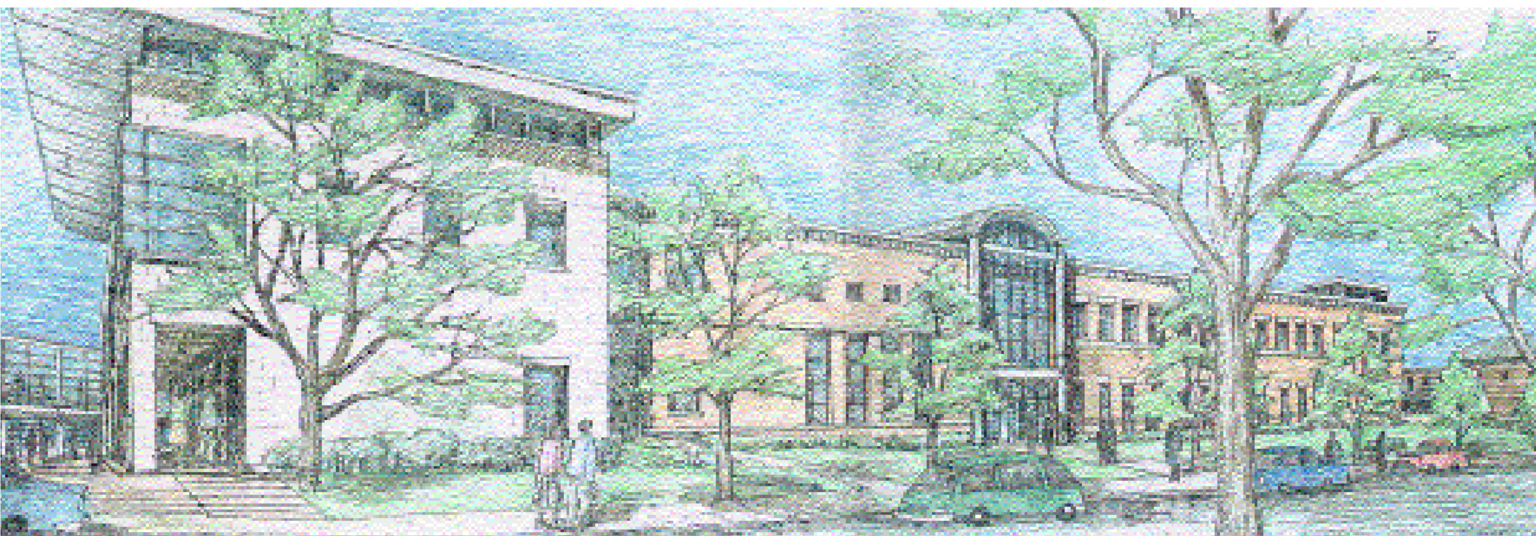
While only a small percentage of the projects were paid for with the COPC grant, HUD provided funds to begin the projects so that the university-community partnership had time to develop cohesion and seek other funding sources. COPC provided a record of success, which attracted other grantors to Hartford, including the Fannie Mae Foundation.

Fannie Mae

In April 1996 the Fannie Mae Corporation restructured itself and formed a separate foundation, the Fannie Mae Foundation, with $350 million in Corporation stock. Its mission is to promote housing opportunities and homeownership for low-income and disadvantaged groups. In 1998, Fannie Mae began a new program to foster university-community partnerships. This new focus began after the University of Maryland sought Fannie Mae support for developing an affordable housing initiative with the State of Maryland Housing Authority and various community groups. This proposal provided the impetus for Fannie Mae to recognize universities as anchoring institutions within distressed communities, and to realize the potential benefits of encouraging this type of partnership.

Fannie Mae believes university-community partnerships are an opportunity to create a sustainable, "win-win" situation for the university and the community. The university benefits through improvements in the surrounding neighborhood. Also, involvement in a community partnership helps universities fulfill their obligations as recipients of public support through grants and tax breaks. On the other hand, the community also benefits, because the grant creates an incentive for the university to mobilize its resources in addressing problems of mutual concern within the surrounding neighborhood.

Fannie Mae looks for programs that have already been established. Frequently these programs are graduates of a HUD COPC grant, and Fannie Mae can utilize the



Artist rendering of the proposed high school, part of Trinity College's Learning Corridor in Hartford, Connecticut. Courtesy of the Hartford Team.

View from Trinity College Campus looking towards the proposed Montessori school, which is also part of the Learning Corridor. Courtesy of the Hartford Team.

infrastructure built with the HUD funds. However, the grant proposal must go beyond the goals achieved under COPC. Fannie Mae's program stresses a dual approach to expand affordable housing opportunities for low- and moderate-income families. The program seeks capacity building through training for existing nonprofits and other active community entities. In addition, the program seeks to increase the neighborhood's housing capacity by encouraging partnerships among local community-based organizations.

The University of Maryland (UMD), whose proposal led to the Fannie Mae program, received a $1 million grant as the first demonstration project. One main component of the project is extensive training for community and nonprofit leaders. Topics include affordable housing and community development financing, negotiation skills, problem solving, and strategic planning. The objective of the training is to enhance the ability of nonprofits to serve the community.

Also, with the goal of improving the quality of life in the Baltimore/Washington region, the project calls for collaboration between UMD, the Maryland Department of Housing and Community Development, and other agencies. As the program is very new, results and specific measures of success are still in development.

Another recipient of the Fannie Mae grants is Yale University, which received $350,000 to assist the Hill Development Corporation, a New Haven-based community development corporation, in its drive to develop affordable housing. Yale's contribution to this partnership will include streetscape design by architectural students and other urban planning activities. Thus, Yale University will fill the role that a planning company would have in a private real estate development project. Since the CDC could not afford this service, both parties benefit. The community will develop low-cost, high-quality housing for residents; Yale's students will receive practical, "real world" experience.

While the Fannie Mae Foundation's grants to university-community partnerships focus on creating quality affordable housing, other funders take a broader view of university-community partnerships.

The Kellogg Foundation

The W.K. Kellogg Foundation gives over $280 million annually and is a prime mover behind a vast array of programs within the United States and abroad. Under this umbrella, it supports a diverse variety of university-related projects. The famous cereal manufacturer established his foundation in 1930, with the mission to "help people help themselves through the practical application of knowledge and resources to improve the quality of life and that of future generations."

The Kellogg Foundation began working with higher education institutions in 1993. The focus of its programs is to revitalize the public service missions of public institutions and to re-energize the connections those institutions have with traditional and new constituencies.

One of the most well-known university projects is the Kellogg Commission, created by the National Association of State Universities and Land Grant Colleges and funded with a $1.2 million grant from the Kellogg Foundation. The Commission brought together 25 university and college presidents from around the country to help define the direction public universities should take in the twenty-first century. Although the long-term impact is still unclear, the primary focus has been on the customer service aspects of a university, that is, increasing access, decreasing costs, and increasing diversity.

In addition to the highly regarded Kellogg Commission, the Kellogg Foundation has made many grants to individual university-community partnerships. For example, Northeastern University has received three Kellogg grants. Beginning in 1991, Northeastern received a grant to include public and community-based components in its health professional education programs. To accomplish this mission, Northeastern University, Boston University, the Boston Medical Center, the Boston Public Health Commission, and several communities created 10 neighborhood health centers. The Centers serve almost half of all residents in their geographical areas.

Has the project helped build a relationship with the community? Pat Meservey, Special Assistant to the President of Northeastern states, "What this grant taught us was to listen to what people need and want in health care, not assume that we know what is best." This approach has been so successful that Northeastern has recently received another grant to replicate the health care model in primary and secondary education.

Conclusion

Despite the successes noted, some university programs have not been able to create a sustainable relationship with their community. Frequently there is an academic slant to the partnership activities that does not take the community's needs into account. University professors traditionally have focused on research and projects that are publishable in peer-reviewed journals. The "publish or perish" axiom is no less true at modern universities. Since many of the university's resources are directed by professors, this creates a contradiction for most partnership activities. Until professors are rewarded by their institutions for community service work, in the form of evaluating the work as part of a tenure decision, their focus will remain on the university and their own research, at the expense of the community's needs.

However, grantors are not waiting for university reform. Although the inherent conflict has been noted by funders, they continue to expand their university-community partnership programs. It should also be noted that universities have contributed a great deal of their own financial resources to their community development partnerships. Yale has a program to assist staff in purchasing homes in New Haven with $20,000 grants over 10 years. So far, Yale has committed over $7 million of its own funds to assist Yale staff who purchase homes in targeted New Haven communities.

The new era of university-community partnerships is gaining significant momentum. There is much progress to be made, but the days of town-gown conflict are fading as a new spirit of cooperation and innovation reaches from the corridors of academia to the bustle of Main Street.

—by Kathleen Gill
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INFORMATION EXCHANGE:

MASSACHUSETTS UNIVERSITY-COMMUNITY PARTNERSHIPS 1999 CONFERENCE

The Federal Reserve Bank of Boston and the New England Board of Higher Education are co-sponsoring a conference on university, college, and community partnerships. The Massachusetts University-Community Partnerships 1999 Conference, *Enhancing Community and Economic Development*, will take place on Monday, June 14 from 9:00 a.m. to 4:00 p.m. at Babson College in Wellesley, Massachusetts.

The conference will feature workshops in five key areas: economic impact; neighborhood revitalization; pre K-12 educational development; health and human services; and academic outreach. Featured speakers include U.S. Senator Edward Kennedy and former Governor of Massachusetts Michael S. Dukakis.

For more information about conference registration, please contact Arneese D. Brown of the Federal Reserve Bank of Boston at (617) 973-3174.

MICROENTERPRISE TOOLS & TECHNIQUES

Microenterprise Tools & Techniques is a two-day training seminar for microenterprise lenders and technical assistance providers. The curriculum was developed by MicroNet (Maine's association of microenterprise lenders) and the Federal Reserve Bank of Boston in order to help build the organizational, lending, and technical assistance capacity of microenterprise practitioners throughout New England.

The training will be held from June 17-18 at the Marriot Hotel in Springfield Massachusetts. The registration fee is $60 per person, and $40 for each additional person attending from an organization. For more information, please contact Paul Williams at the Federal Reserve Bank of Boston at (617) 973-3227.

FEDERAL RESERVE BANK OF SAN FRANCISCO'S NATIONAL COMMUNITY DEVELOPMENT LENDING SCHOOL

The Federal Reserve Bank of San Francisco presents the 1999 National Community Development Lending School, from July 18 to 22 at the University of California at Berkeley's Clark Kerr Campus. The program is geared towards community development lenders and consists of five days of intensive training.

The purpose is to showcase methods to turn community development lending into a profitable, dynamic venture. Taught by top banking experts, the course will teach you how to think like an entrepreneur, manage risk, structure profitable loans, analyze credit, develop community partnerships, and make sound business decisions for your institution.

Brochures and application materials are available at http://www.frbsf.org If you would like to receive more information by mail, please e-mail your request with your mailing address to NCDLS.99@sf.frb.org or fax this information, with NCDLS'99 Mailing List in the title to (415) 393-1920. Or you can call Cynthia Burnett Howard at (415) 974-2968.