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FOOD STAMPS: A LIFELINE IN THE DOWNTURN

ALSO INSIDE

Communities & Banking

Communities & Banking magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

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If you would like to submit an article for a future issue of *Communities & Banking*, please contact the editor.

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Cover illustration: Joseph Guidry

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Letter from the Editor

Photograph: John Ellis

Welcome once again to *Communities & Banking*. Our cover story by University of Minnesota professor Ben Senauer explains why the Supplemental Nutrition Assistance Program (SNAP, or food stamps) has been a lifesaver for the working poor in the downturn. The average $134 per person per month has often meant the difference between eating and not eating.

Sarah Byrnes describes Resilience Circles, in which groups of people give one another a helping hand and brainstorm to change policies that hurt the poor. Jorge Acero from the Maine Bureau of Employment Services, meanwhile, writes about a state program that is helping low-income Mainers move into higher-skilled jobs with better pay. We also feature research by MassINC's Ben Forman and Caroline Koch on how growing income inequality has increased geographic segregation.

As ever, *Communities & Banking* continues to investigate the high U.S. incarceration rate and its effect on lower-income communities. An article demonstrating that many addicted and mentally ill prisoners might be less expensively and more effectively treated in communities is important reading.

Foreclosure mediation—which gets all parties in the same room to hammer out foreclosure alternatives—is seeing increased acceptance as foreclosure continues nationwide. The Fed's Robert Clifford shares his Massachusetts state house testimony on when mediation is likely to be successful.

Peter Hollands of Boston Private Bank offers practical guidelines for bankers seeking a good return from community development projects. Susan Longworth of the Chicago Fed explains how interjurisdictional collaboration can increase the supply of affordable housing and revitalize communities. And in the education arena, Kevin Todd describes research that can aid educators making student-placement decisions.

Last but not least, Claire Greene reports on a youth production called *Money Matters* that engages actors' and audiences' emotions so as to improve retention of information about money and saving. Let us know if you want to come see the play at the Boston Fed on October 18.

And always feel free to contact me,

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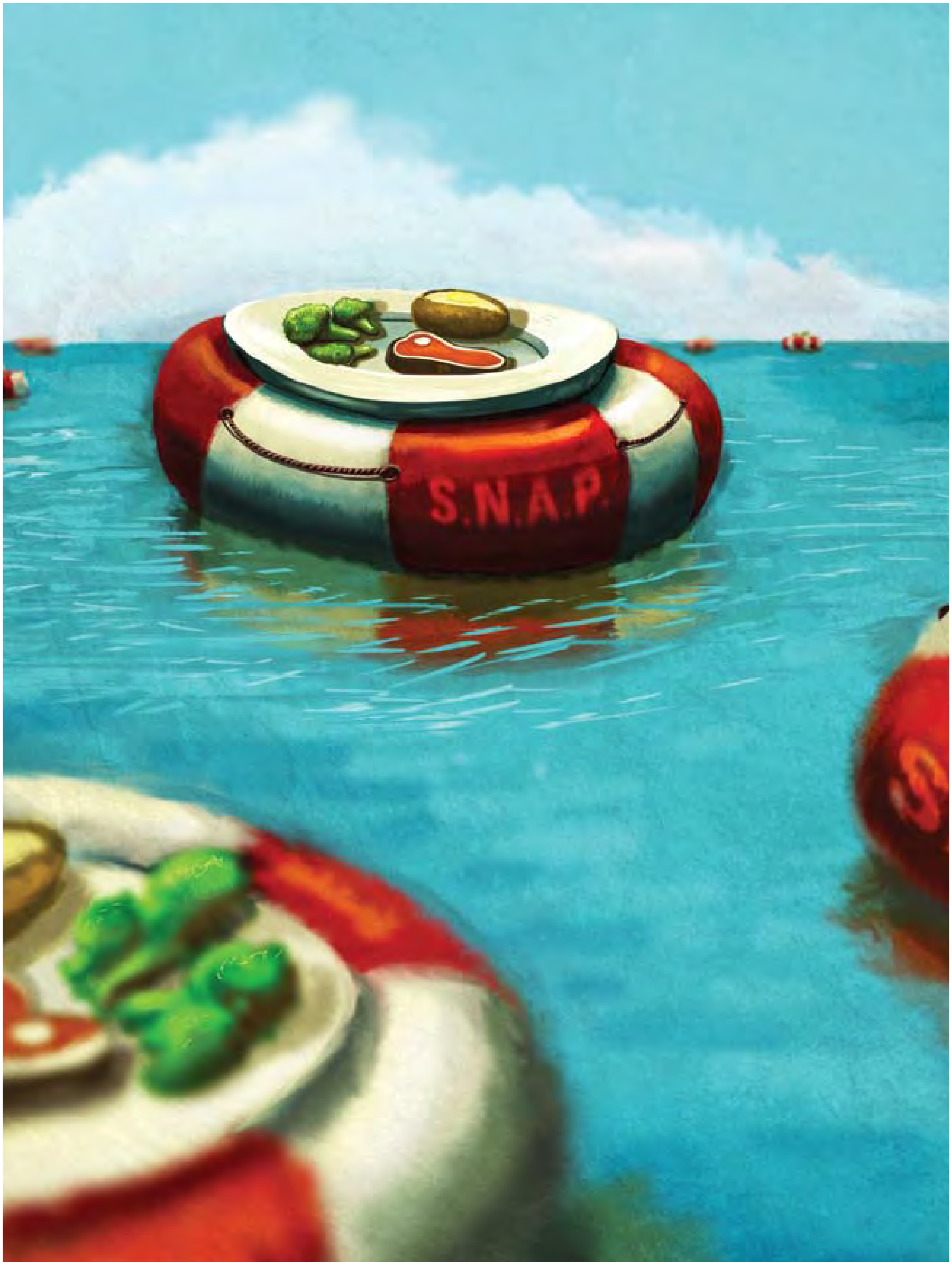
Managing Editor


S.N.A.P.

THE ROLE OF FOOD STAMPS IN THE RECESSION

BEN SENAUER, UNIVERSITY OF MINNESOTA

The food stamp program—renamed the Supplemental Nutrition Assistance Program (SNAP) in 2008—has been a lifesaver since the economic downturn.[1] Average monthly participation grew from 26.3 million people in fiscal year 2007 to 44.7 million in FY 2011, and then to 46.5 million by December 2011, when one in seven Americans were enrolled. The 76.8 percent increase reflects the severe financial hardship in many households resulting from the Great Recession and the slow recovery.

The budgetary cost of the program rose along with participation, from $30.4 billion in 2007 to $71.8 billion in 2011. Nevertheless, without the benefits that SNAP provided—on average $133.85 per month in 2011 per participant (up from $96.18 in 2007) and $535.40 for a four-person household—the situation for many Americans would have been dire. Today, with accelerated economic growth and a stronger job market, participation can be expected to decline, as it did after past recessions.[2]

The growing role of food stamps can be traced to the Clinton administration, when the largest federal welfare program for the poor, Aid to Families with Dependent Children, was replaced by Temporary Assistance for Needy Families (TANF). TANF had clear pluses while there were job openings. But when TANF's stricter time limits, work rules, and federal spending caps ran up against the Great Recession's loss of jobs, most poor families had no coverage. Participation in TANF increased only slightly.[3]

The two main supports for struggling low-income households became unemployment benefits and SNAP.

From Food Stamps to SNAP

Food stamps started in the 1960s and were substantially expanded under the Nixon administration in the 1970s. In the 1990s, the program switched from using coupons to electronic benefit transfer (EBT) cards, now accepted at more than 170,000 retail stores. Each month, the benefit amounts for participating households are added electronically to account balances on the cards. SNAP benefits can be used only for "food at home" and cannot be spent on food purchased from restaurants or on prepared foods at deli counters.

To receive SNAP benefits, households must meet certain requirements. A household's gross monthly income cannot exceed 130 percent of the federal poverty level, which was $2,442 per month for a family of four in FY 2012. Monthly net income cannot be more than 100 percent of the poverty level, which is $1,863 for a family of four after deductions from gross income (20 percent of any earned income, a standard per-person deduction, specified medical expenses, dependent-care costs, training, education, and certain excess housing expenses). With changes in the late 2000s, financial asset tests were effectively eliminated, which substantially expanded eligibility.[4]

Participants' monthly SNAP benefits, referred to as allotments, depend on the number of family members in a household and net income. A basic principle is that low-income households should spend 30 percent of their own income to buy food. Only the poorest households receive the maximum allotment, which in FY 2012 is $200 monthly for a single person and $668 for a family of four. Each dollar added to a household's net income reduces its SNAP benefits by 30 cents. The benefit level is updated annually on the basis of the Consumer Price Index (CPI) for food.

Many of the principles that welfare experts advocate are embodied in SNAP. The program has uniform national standards. The federal government covers the total cost of benefits and half of state administrative expenses. Coverage is universal. Funding for the program is required to expand to meet the benefit allowances of all those who are eligible. The incentive to work is strong, since SNAP benefits are only reduced by 30 cents for each $1 earned until the eligibility threshold is reached.

Effectiveness

The elderly and the young represent more than half of SNAP beneficiaries. In FY 2010, 47 percent of SNAP recipients were children under age 18, and an additional 8 percent were 60 and older.[5] Forty-one percent of SNAP participants lived in a household that had income from working (the working poor). Only 8 percent received cash welfare payments under TANF in 2010, whereas 42 percent had received cash welfare benefits in 1990, prior to welfare reform.

A recent U.S. Department of Agriculture study examined the effects that SNAP has on poverty and found that a significant improvement in the well-being of recipients was attributable to the program.[6] In 2009, the most recent year analyzed, 93.0 percent of SNAP benefits went to households with incomes at or below the federal poverty level

Supplemental Nutrition Assistance Program (SNAP) in New England

	Percent of the total population participating in 2010	Percent growth in participation between 2007 and 2011
Maine	16.9	54.3
Vermont	13.2	77.5
New Hampshire	7.5	87.6
Massachusetts	11.3	86.4
Connecticut	9.4	54.5
Rhode Island	12.4	135.7
United States	13.1	69.9

Source: U.S. Dept. of Agriculture, "SNAP: Average Monthly Participation (Persons) by Fiscal Year," http://www.fns.usda.gov/snap/.

Photograph: Rachel Bissett

(that would be $22,356 annually for a family of four in FY 2012), and 55.8 percent went to households living in "deep" poverty, which is defined as less than half the poverty rate.

SNAP benefits are not counted in assessing poverty. The inclusion of SNAP benefits would reduce the number of households living below the poverty level by 7.7 percent in 2009 and the number of children living in poverty by 9.8 percent. For households remaining below the poverty level, SNAP raised the average poor family 14.6 percent closer to the poverty level in 2009, an effect referred to as "closing the poverty gap." For children, the poverty gap was reduced by 20.9 percent in 2009.

One study notes 2010 was the first time that SNAP benefits accounted for more than one-tenth of all the purchases of food at supermarkets, grocery stores, and other food retailers.[7] Another study reported a positive economic impact on recipients' communities. Every $5 in new SNAP benefits was found to generate $9.20 in total spending in local communities.[8] There is a clear multiplier effect as the additional spending circulates through the economy and creates more jobs and additional spending.

New England

Between FY 2007 and FY 2011, SNAP participation increased by more than 50 percent in every New England state. (See "Supplemental Nutrition Assistance Program in New England.") The change largely reflects the 2007-2009 recession and its aftermath.[9] Four of the states witnessed a greater increase in SNAP participation than the national gain of 69.9 percent. Rhode Island suffered one of the largest jumps in unemployment nationally, which explains the 135 percent-plus increase in SNAP participation. The state's unemployment was still 11.0 percent as of February 2012.

In the population census year 2010, both Maine and Vermont had a greater percentage of residents participating in SNAP than the nation as a whole. Maine's participation rate was the highest in New England, and Connecticut's the lowest. Overall, SNAP benefits to New England households amounted to nearly $2.9 billion in FY 2011.

Given that the welfare reforms of the late 1990s required recipients to find work fairly quickly, today's slow recovery and slow job growth have made food stamps increasingly important for low-income Americans. Until the economy improves significantly, even poor people who have jobs are going to need the lifeline that SNAP offers.

Ben Senauer, *a professor in the department of applied economics at the University of Minnesota in St. Paul, has focused his research over many years on federal food and nutrition-assistance programs. Contact him at bsenauer@umn.edu.*

Endnotes

1 See U.S. Department of Agriculture, "SNAP: Fact Sheet," September 2008, http://www.fns.usda.gov/snap/.

2 See U.S. Department of Agriculture, "SNAP: Average Monthly Participation (Persons) by Fiscal Year," "SNAP Benefits by Fiscal Year," and "SNAP: Number of Persons Participating," http://www.fns.usda.gov/snap/.

3 Jason DeParle, "Welfare Limits Left Poor Adrift as Recession Hit," *New York Times*, April 8, 2012.

4 See U.S. Dept. of Agriculture," Supplemental Nutrition Assistance Program: Eligibility," http://fns.usda.gov/snap; and Casey B. Mulligan, "Food Stamps and Unemployment Insurance," *New York Times*, May 9, 2012.

5 U.S. Department of Agriculture Office of Research and Analysis, "Characteristics of SNAP Households: FY 2010," September 2011, http://www.fns.usda.gov/ora/.

6 Laura Tiehen, Dean Jolliffe, and Craig Gundersen, "Alleviating Poverty in the United States: The Critical Role of SNAP Benefits" (Economic Research Service, U.S. Dept. of Agriculture, Economic Research Report no. 132, April 2012).

7 Parke Wilde, "The New Normal: The Supplemental Nutrition Assistance Program (SNAP)," *American Journal of Agricultural Economics*, forthcoming.

8 Kenneth Hanson and Elise Golan, "Effects of Changes in Food Stamp Expenditures across the U.S. Economy" (Food Assistance and Nutrition Research Report 26-6, Economic Research Service, U.S. Department of Agriculture, Washington, DC, August 2002).

9 See, for example, Ana Patricia Muñoz, "Mapping New England: Poverty Rates, by County," *Communities & Banking* 23, no. 2, spring 2012, http://www.bostonfed.org/commdev/c&b/2012/spring/mapping-New-England-poverty-rates.pdf.

moving skills from low to high

JORGE A. ACERO, MAINE BUREAU OF EMPLOYMENT SERVICES

Over recent decades, Maine has suffered tremendous losses in manufacturing, traditionally a reliable job provider and an important part of Maine's identity. Statistics for 2000 to 2008 alone show more than 6,000 manufacturing jobs lost.[1] Textile mills, fine paper and pulp mills, shoe factories, and even seafood-processing employers have moved operations offshore to reduce costs. (See "Employment in Maine.")

In their wake are workers who dedicated their entire adult lives to factory work. The old system of following a parent's footsteps into the factory is gone. And many unemployed or underemployed Mainers lack the newer, more marketable skills required for gainful employment. Meanwhile, employers eager for a workforce with updated knowledge and skills struggle to find qualified applicants.

Maine Tackles Skills Mismatch

The skills challenge is particularly severe for Maine's rural, mostly low-income, population. Underemployed adults, some with

Photographs: iStockphoto

obsolete factory skills, work numerous jobs to make ends meet. Although many would like to take advantage of new job opportunities, they lack updated knowledge. Moreover, they are finding it nearly impossible to afford the cost of training and education. Whether the training they seek is truck-driving lessons through a commercial driver's license training program or a two-year nursing degree from a community college, the cost is out of reach for many.

Lack of access to educational opportunities is keeping many residents from becoming marketable job seekers while hampering employers' ability to recruit people. With that concern in mind, Maine's legislature created the Competitive Skills Scholarship Program (CSSP) with enthusiastic bipartisan support. CSSP was launched January 1, 2008, with three goals: first, to give individuals access to education, training, and support leading to jobs in anticipated high-demand sectors; second, to improve the economic well-being of the participants in the program; finally, to provide employers with a skilled labor force.

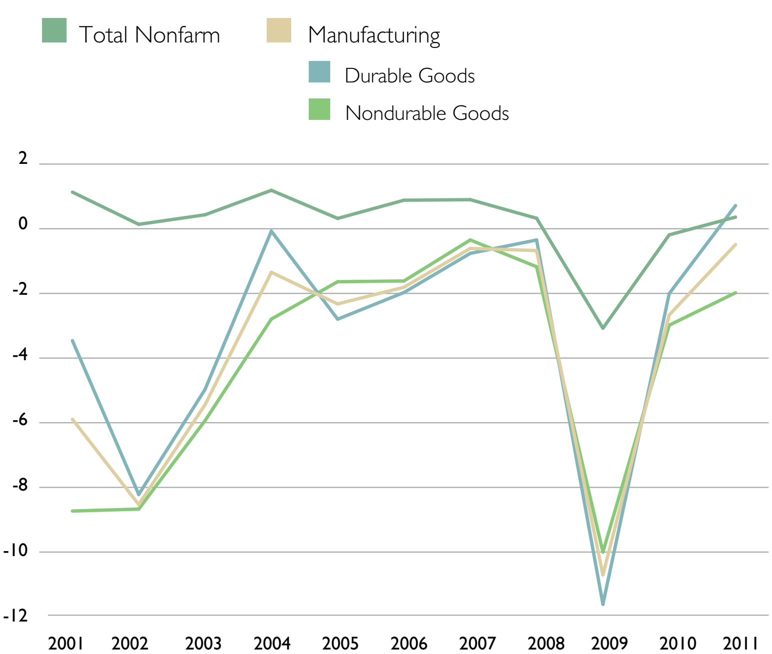
A CSSP Fund (CSSF) was established by the CSSP statute, requiring a plan for an annual yield. The funds are raised through an annual employer assessment based on worker earnings. The assessment is equal to .02 percent of the total wages paid by each contributing employer, subject to unemployment insurance taxes. The formula is expected to yield approximately $3 million annually. Through the fund, CSSP is able to cover the cost of tuition, fees, books, required supplies, and tools—plus the supportive services without which participants might not be able to complete program successfully.

CSSP is administered by the Bureau of Employment Services (BES) within Maine's Department of Labor. Each of Maine's 16 counties is apportioned a set number of slots based on the federal Workforce Investment Act program's year-allocation fund. When determining the number of participants that can be accepted into the program in a given year, BES takes into account how many participants from the prior year are still in training. The average participant enrollment is 3.39 years. CSSP rules allow a participant to take four years to finish a two-year program if circumstances require.

To be eligible, applicants must be at least 18; lack a marketable postsecondary degree; have income less than 200 percent of the federal poverty level for the family size involved; apply for education or training for a job in an approved industry offering high wages and high demand; and have the aptitude to complete the training, as determined by the institution providing it.

Applications submitted to the local career centers in each county are reviewed for initial eligibility, and applicants considered eligible are placed on a list for selection in an electronic randomizing process. Selected participants are paired with a caseworker at their career center, and an individual career plan or Individual Service Strategy (ISS) is designed. In effect, the ISS is a goals-and-service contract between the participant and CSSP.

Employment in Maine
Percent Change from Year Earlier (seasonally adjusted)



Source: U.S. Bureau of Labor Statistics

Participant Characteristics

By September 30, 2011, CSSP had 637 people enrolled. Active participants numbered 407. A review of case-management data on the 637 shows that two-thirds were female; the average age was 35.8 (ranging from 18 to 73); the average household size was 2.3 persons; and 32 percent were single parents.

The income and employment status reported by the 637 suggests a struggle to get by:

- 71.2 percent had household income below the poverty level ($14,710 annually for a household of two), well below the eligibility limit (200 percent of the federally mandated poverty level for 2011);
- 23.7 percent reported hourly wages between $8 and $9.99;
- 71.0 percent were unemployed at the time of application;
- 37.0 percent reported receiving unemployment benefits at the time of application;
- The most recent annual wages for 92.0 percent of enrollees were less than $28,621;
- 63.4 percent earned wages below $11.20 per hour; and
- The average hourly wage for the most recent wages of enrollees was $11.53, well below the statewide average of $17.62.

CSSP participants are registered for courses ranging from short-term certificate classes to four-year degree programs:

- Of the 637, 13 percent enrolled in developmental courses in the adult education system;
- 26 percent enrolled in certificate or one-year degree programs at approved institutions;
- 47 percent enrolled in two-year degree programs, primarily in community colleges or the University of Maine system; and
- 35 percent enrolled in four-year degree programs, mostly in the University of Maine system.[2]

The projected wage in occupations selected by the 637 CSSP participants—for example, registered nursing, truck driving, mental health counseling, and computer support specialties—is $23.03 per hour, or $47,902 annually, for full time. That would, on average, more than double their income.

Today employers want the more educated, better trained job seekers. The CSSP aims to instill competencies that are the most important: critical thinking, problem solving, analytic skills, communication, interpersonal skills, collaboration, ability to execute, flexibility, adaptability, information processing, and capacity for change.[3]

The intangible benefits of education and training are equally important. A recent news article about a participant illustrates how participation in postsecondary education can affect a life:

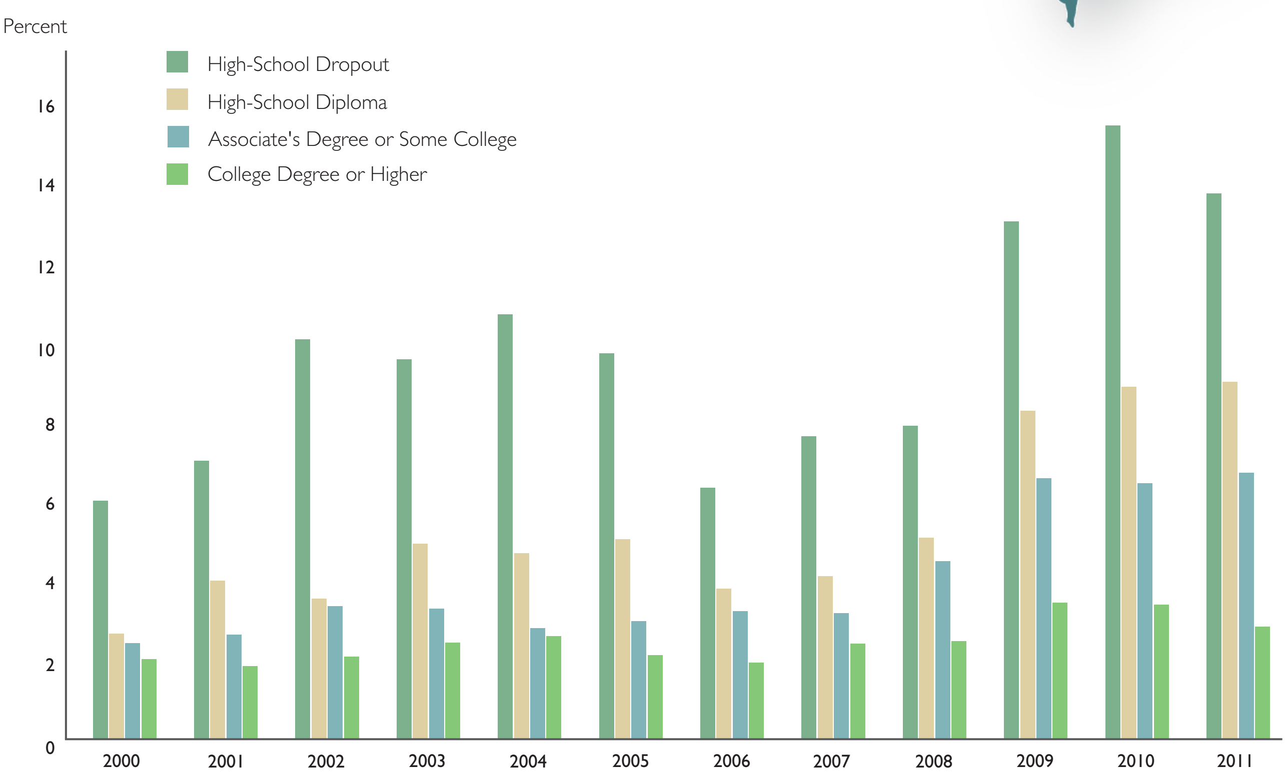
> "I worked as a mechanic until I lost my job. I always liked computers, so I went back to school, got some training, and now work in IT for Central Maine Community College making more money than I did before." He credits his journey from anxious and unemployed to happy and employed to the Lewiston Career Center, the Competitive Skill Scholarship Program and Central Maine Community College.[4]

For adults with a history of low-wage work and unemployment, CSSP can improve quality of life and heighten aspirations for families. (See "Unemployment by Educational Attainment.")

Photograph: iStockphoto

The open application period for CSSP 2012 was in early February. By March 1, CareerCenters had processed 901 applications for eligibility. On March 15, the list went through a random-selection process, and winners were identified on the basis of

Unemployment by Education Attainment, State of Maine



Source: *Current Population Survey* (CPS), http://thedataweb.rm.census.gov/ftp/cps_ftp.html, and Federal Reserve Bank of Boston.

Analysis of participants' training choices in light of projected job openings indicates that the program is successfully connecting people to training for projected in-demand jobs.

allocated slots per county. Two weeks later, CareerCenter counselors were sitting with 150 new CSSP participants designing plans for study and support.

Analysis of participants' training choices in light of projected job openings indicates that the program is successfully connecting people to training for projected in-demand jobs. More education and training increase their chances of obtaining and keeping jobs that pay well and help them advance. Maine data, along with participant feedback, show that CSSP is carrying out its legislative mandate to improve the economic well-being of the participants and to provide employers with skilled workers.

Jorge A. Acero *is the Competitive Skills Scholarship Program manager at the Maine Bureau of Employment Services. Contact him at Jorge.A.Acero@Maine.gov.*

Endnotes

[1] John Dorrer, "CSSP 2009-2010 Enrollment Profile, November 1, 2007 – June 2010" (white paper, Maine Department of Labor, Augusta, Maine, 2010).

[2] Many participants in developmental courses were simultaneously in courses providing credit, and others continue to transition from two-year degrees to four-year degrees. Thus the numbers include duplicates, and the sum of participants is greater than the 637 actual headcount.

[3] Luisa Depre and Sandra S. Butler, "Independent Participant Overview," *2011 Report of CSSP to Joint Standing Committee on Labor, Commerce, Research and Economic Development* (Augusta, Maine: Maine Department of Labor, 2012).

[4] Bonnie Washuk, "Unemployment Leads to New Career in IT," *Lewiston-Auburn Sun Journal*, July 26, 2010, http://www.sunjournal.com/city/story/880564.

When Job Openings Don't Match Available Skills

JULIA DENNETT , FEDERAL RESERVE BANK OF BOSTON

Policymakers and business leaders across New England are concerned that the region is facing a shortage of skilled labor, particularly as baby boomers retire. If New England lacks a sufficient number of workers or if the population does not have the right mix of skills, businesses will be unable to locate to the region or expand, impeding long-term growth.

Recent New England Public Policy Center research suggests that the gap between the skill level of the population and the skills demanded by employers is greatest in occupations classified as *middle skill*. Middle-skill jobs are jobs requiring some postsecondary education beyond high school, such as an associate's degree or other college training, but less than a bachelor's degree. They often entail specialized skills or interpersonal interactions in sectors such as health care, advanced manufacturing, education, and information technology.

NEPPC findings indicate that the supply of middle-skill workers has not kept pace with demand for several decades and will likely face future constraints. Meanwhile, firms continue to require ever greater levels of education and training.

Policymakers should consider implementing education and training programs to fill positions in growing categories of middle-skill jobs. Two-year educational institutions such as community colleges, the primary source of education and training for middle-skill workers, can be good partners for companies. In addition to offering access to postsecondary coursework, they increasingly provide training opportunities, including vocational certificates, remedial education, and English as a Second Language.

Julia Dennett, *a research associate in the New England Public Policy Center of the Federal Reserve Bank of Boston, collaborated on "The Middle-Skills Gap: Ensuring an Adequate Supply of Skilled Labor in Northern and Southern New England" with economist Alicia Sasser Modestino. Contact Julia.Dennett@bos.frb.org or read the paper at http://www.bostonfed.org/economic/neppc/briefs/2011/pb111.htm.*

How Peers Affect Student Performance

KEVIN TODD, FEDERAL RESERVE BANK OF BOSTON

In an effort to improve educational outcomes of urban students, numerous experiments have been launched over the years. The Metco program, for example, was established as a voluntary racial-integration scheme that would bus students from Boston to suburban public schools (to "provide enhanced educational opportunities for participating students, to reduce the racial isolation of suburban school districts, and to reduce segregation in city schools"). It remains one of the country's longest-running urban-education experiments, celebrating its 56th birthday in 2012.[1]

How Metco and similar initiatives have affected students is a subject of some controversy. Some critics believe that Metco removes motivated and high-achieving students from Boston's public schools, undermining the learning experience of the remaining students. Others hold that Metco students' past schooling has left them relatively low achievers needing remediation and that the receiving schools are diverting resources from suburban students, hurting their academic achievement.

Classmates and Scholastic Aptitude

Both of those views are related to the idea that the other students in a child's school, grade, and classroom directly affect his or her academic performance. But is that true? Recent research offers insight and holds implications for a variety of education-policy initiatives that influence the way students of different backgrounds and abilities are assigned to classrooms and schools.

Typically, scholastic aptitude, or "ability," is measured using a baseline test score for the student. Such a measure reflects a combination of innate ability as well as the impact of teachers, parents, and peers encountered prior to the baseline test. Thus for purposes here, "ability" does not mean innate ability only.

It may seem natural to assume that a student's classmates will affect his or her performance in school, but it is actually quite difficult to prove that so-called "peer effects" occur systematically. There are many other factors that influence a student's academic performance, and those factors—such as the teacher, the school, and the home environment—may vary in lockstep with the peer group, making it difficult to isolate the influence of any given element.

Although not foolproof, econometric analysis—a tool used frequently by economists and other social scientists—offers a variety of techniques for coping with the challenge of identifying peer effects in an academic setting. With sufficient data on

Photograph: iStockphoto

academic outcomes such as test scores, and information about relevant inputs, such as peer aptitude, teacher effectiveness, and school quality, econometric techniques can help us to determine, for example, whether and to what extent having classmates with high scholastic aptitude leads to a higher test score for a given student, compared with the test score the student would achieve when placed with classmates of lower scholastic aptitude (holding all other factors constant).

Two Studies

In recent years, economists have gained insights into the nature of academic peer effects by making advantageous use of data and harnessing innovative techniques. One study, conducted by Caroline Hoxby and Gretchen Weingarth, examined peer effects using data on students from a county in North Carolina, where some students were reassigned to different schools from one year to the next.[2] This reassignment was part of a larger program intended to promote greater economic integration in the district's schools. By isolating random components in the school-reassignment process, the researchers were able to minimize the risk of finding spurious peer effects.

An interesting feature of the study was that it examined different ways in which peer effects might work. For instance, the authors were able to test whether the presence of a single low-aptitude student in a classroom hinders the improvement of all other students in the class. (Answer: It doesn't.) Overall, Hoxby and Weingarth find that students tend to perform better in classrooms consisting of peers of slightly higher ability than themselves rather than with peers in the top tier of ability. They also find support for the hypothesis that, regardless of a student's own ability, the student will perform better in a classroom in which ability is "focused"—that is, a classroom in which abilities do not vary a great deal across students but are concentrated in a relatively narrow range. Teachers in such classrooms may be able to do a better job of targeting lessons to the specific needs of the group. Additionally, the authors find that students of the highest overall ability levels experience some benefits from interactions with students of slightly lower abilities.

Mary Burke, a senior economist at the Federal Reserve Bank of Boston, and Tim Sass, of Georgia State University, studied classroom peer effects using several years' worth of data from the public schools in Florida.[3] Unlike many other related studies, this one had data indicating which teacher was assigned to each classroom. That allowed the researchers to control for teacher effectiveness. Without such controls, improvements in student performance caused by teachers might be misattributed to the mix of students in the classroom.

Burke and Sass's findings bear some similarities to those of Hoxby and Weingarth. For instance, they find that lower-ability students benefit more from interaction with students in the middle of the ability distribution rather than the top tier—a finding suggesting that if a school district wants to improve the performance of low-ability students, it should place such students in classes with peers of modestly higher ability. Burke and Sass also find that high-ability students perform best when placed with other high-ability peers. That effect may be due to increased competition among students. Taken along with the results of Hoxby and Weingarth, the results suggest that high-ability students benefit from interactions with peers of similar ability levels.

The findings of these two studies have the potential to inform a number of education-policy debates. School vouchers, charter schools, and other school-choice policies would, if implemented, change the mix of students in schools. Although neither of the two studies can predict with certainty the effects of such policies, their findings mean that policymakers should strongly consider potential changes in student peer groups that might result from the implementation of school-choice policies.

Classroom-assignment policies within schools, such as "tracking," also may benefit from the insights of peer-effect studies.[4] When assigning students to classrooms within schools, administrators and teachers may wish to bear in mind study results—for example, the finding that high-ability peers benefit from interaction with other high-ability peers. Additionally, the results from the peer-effect studies suggest that urban-suburban programs like Metco are unlikely to be detrimental to student performance in the aggregate.

Kevin Todd *is a research assistant at the Federal Reserve Bank of Boston. Contact him at kevin.todd@bos.frb.org.*

Endnotes

1 See http://www.doe.mass.edu/metco/faq.html?section=a.

2 Caroline M. Hoxby and Gretchen Weingarth, "Taking Race Out of the Equation: School Reassignment and the Structure of Peer Effects" (unpublished manuscript, 2006).

3 Mary A. Burke and Tim R. Sass, "Classroom Peer Effects and Student Achievement" (public policy discussion paper no. 11-5, Federal Reserve Bank of Boston. 2011).

4 Tracking is defined here as "a system of classroom assignment that groups students of similar academic achievement levels or ability levels into classrooms."

COMMUNITY LENDING

A DRIVER FOR BANK GROWTH

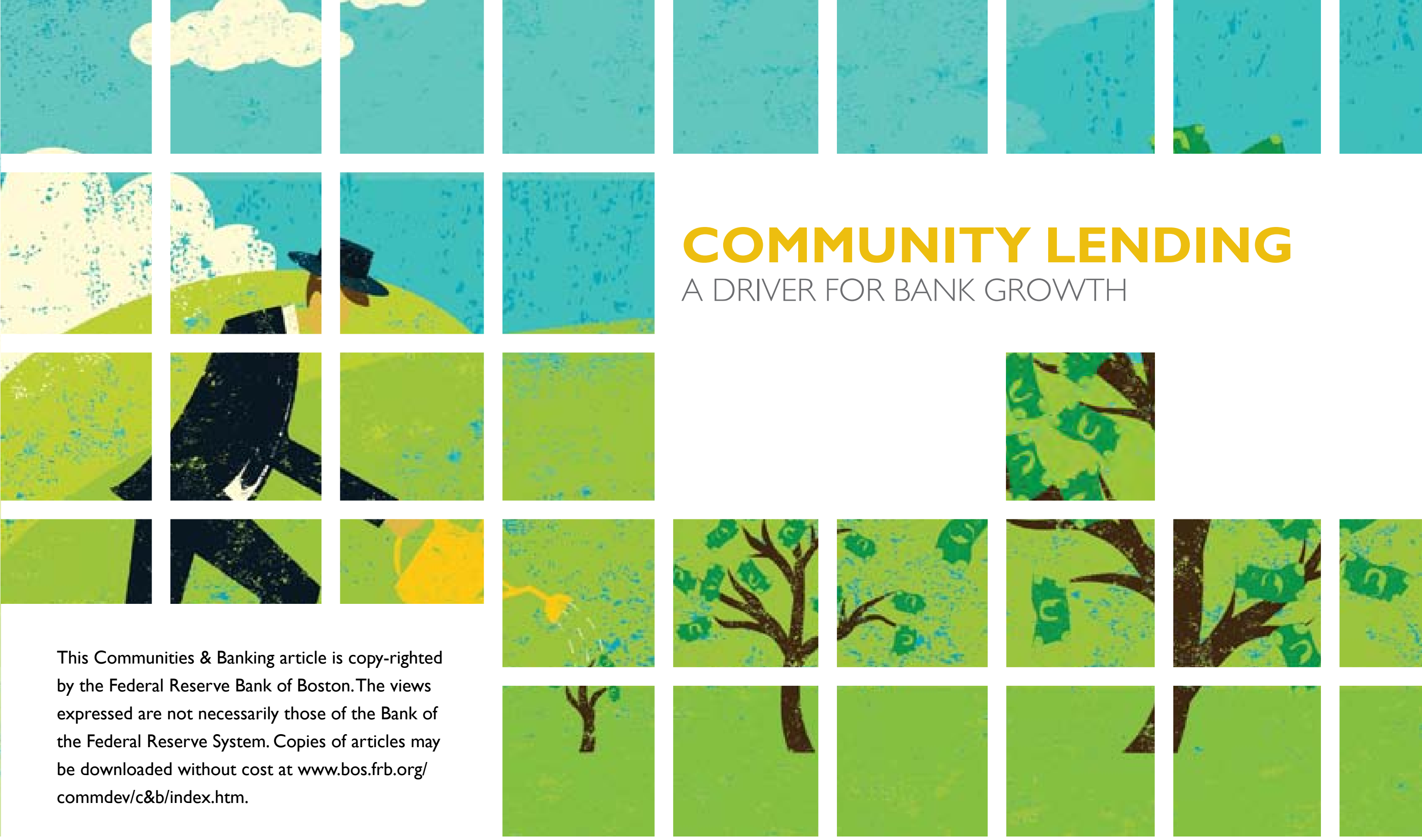


Illustration: iStockphoto

FINANCIAL INSTITUTIONS THAT MAKE LOANS FOR AFFORDABLE HOUSING AND ECONOMIC DEVELOPMENT DO GOOD FOR THEIR COMMUNITIES. THEY ALSO DO WELL FOR THEMSELVES.

PETER HOLLANDS
BOSTON PRIVATE BANK & TRUST CO.

On first impression, one might assume that loans for affordable housing or for building a health center in a low-income community are more risky than other types of commercial real estate loans. The borrower may be a cash-poor nonprofit organization. The end users—tenants, job-program participants, patients—may face economic pressures. The collateral value may be low compared with total project cost.

Nevertheless, such community development loans can be safe, sound, and profitable. Done right, they can help a financial institution grow.

That has been the experience of Boston Private Bank & Trust Company, a $6 billion bank, where commercial lending has grown more than 10 percent annually in each of the past five years. Community development loans were critical to that growth. Boston Private Bank booked more than $125 million of new CRA-eligible commercial loans in the past two years (as of December 31, 2011). That equates to more than 15 percent of all commercial loans originated within a commercial portfolio that grew $285 million net over the same period.

Since 1987, the bank has made successful community development loans to build affordable housing, health centers, grocery stores, charter schools, and youth-training facilities and to finance small businesses and low- and moderate-income first-time homebuyers. Loans have been made primarily in the bank's initial home, Boston, but now also in its California and Pacific Northwest regional offices. The bank has learned that partnering with the stable and mature community investment industry can pay off.

The Underwriting

As with any credit, a key component of credit quality for community investment loans is the borrower and the borrower's ability to pay back a loan.

Borrowers for affordable housing and economic development tend to be nonprofit organizations without a lot of free cash. They do not have liquid assets at a level that would merit an "A" rating in a traditional credit analysis. Fortunately, other attributes of these borrowers mitigate the risk.

First, community development borrowers pass with flying colors character tests like a commitment to paying back a loan. As neighborhood institutions, they are committed to long-term, stable investment for lower-income people and their communities. They are determined to build projects that last—from the quality of construction to the stability of the financing. Banks know these borrowers will work tirelessly to ensure the success of their projects.

In Chelsea, Massachusetts, for example, a historically low-income urban community just north of Boston, a collaboration between community-based nonprofit Chelsea Neighborhood Developers and a for-profit developer (on a city- and state-supported conversion of a vacant former mattress factory into residential loft space) was stalled in the 2007 economic downturn. It was the last piece of a neighborhoodwide strategy, and although a more conventional borrower might have abandoned the project, these developers doggedly worked with their mission-driven lenders to invest more equity and to structure a financially feasible loan for Boston Private to underwrite. The resulting project, Atlas Lofts, has succeeded financially beyond expectations and has become the important community building block it was envisioned to be.

Second, many community development borrowers are sophisticated borrowers. Although when they started out decades ago, they may not have had much real estate experience, by now, organizations such as Chelsea Neighborhood Developers, Urban Edge Development Corporation, and Harborlight Community Partners have long and successful track records. They employ experienced professionals who understand the complex and heavily regulated field of community investment. Their projects are well planned, their assumptions are realistic, their loan applications are professional. And these projects are almost invariably as complicated as projects many times their size. In the Chelsea transaction, for example, the developers had to keep a roster of eight financing entities moving in the same direction—not to mention the construction contractor.

Third, community development borrowers collaborate effectively with a wide range of financing partners in addition to banks. These financing partners—host municipalities, state or federal governments, private investors—stand behind the borrowers with significant equity or subordinate debt. It is not uncommon for community investment projects with total development costs of $15 million to support only $5 million to $7 million in first-mortgage debt, with the remainder of the costs paid by subordinate debt or equity. When three-quarters of the project cost is outside the first mortgage, a lender can be quite confident of repayment. Less debt means that appraised values can be lower and that interest payments (and cash flow requirements) will be lower. All in all, less debt makes the loan more likely to be repaid on time.

In the development of the Chelsea project, Boston Private provided a construction loan totaling approximately 43 percent of the total development cost of $15.7 million, in a first-mortgage position that was senior to financing from the state, a regional financing consortium, two mission-driven lenders, an equity investor interested in the state historic tax credits associated with the project, another equity investor interested in the federal historic tax credits, and the for-profit partner who had invested equity directly into the project.

Finally, community development borrowers have already had an extra level of due diligence and project-feasibility analysis because public funding requires it. By the time a first-mortgage application reaches a financial institution, public projects have been analyzed and reanalyzed by experts at government and quasi-government funding agencies. Understandably so: when one in five to 10 projects is being funded, scrutiny is intense.

Many community investment transactions involve significant investment by private, for-profit entities. An investor's return depends on the financial success of the proposed development, frequently over a 15-year period, so the underwriting is suitably rigorous. In the Chelsea transaction, the key investor was Best Buy. More recently Wal-Mart Stores, Google, Apple, and many other well-known companies have invested in these types of projects.

Thus borrowers, with their often limited liquidity and assets, are not the only participants with a significant stake in the success of an affordable housing or economic development project. Although neither the public lenders nor the private investors are usually obligated to step in if a project encounters serious trouble, they do have a strong interest in doing so. They may make significant additional investments when needed, and the lender may restructure the loan. It takes patience on the part of a lender in those rare cases, but the patience is usually rewarded with a feasibly restructured transaction. It's the commitment of all parties to the transactions that makes them work.

How to Get Started

Those four strengths (commitment, sophistication, collaboration, and deep financial analysis) mean that community investment loans can be treated just like any other loan. Government lending and economic development funding make up for lack of liquid assets, and the passion of nonprofit leaders enables them to overcome obstacles. That is why other parts of the lender's underwriting are quite straightforward. A bank should apply the same credit metrics as it would in conventional transactions:

- 75 percent to 80 percent loan-to-value ratio (with reference to the collateral's value as restricted by the various public programs). Although these projects may involve low collateral/cost ratios, the collateral/first mortgage ratio is strong.
- 1.15 times—or better—debt service coverage (the net operating income from the property exceeds the required amount of annual interest and principal payment by at least 15 percent). Less debt makes it possible for low-cash-flow projects to meet this requirement.

Boston Private prices community investment loans just like any other commercial loan. As of this writing, the rate on an affordable housing project would be around 250 basis points over the cost of funds. For a 10-year deal, the rate might be approximately 5.5 percent. Thus community investment can be a valuable business line.

To succeed in lending for affordable housing or other community development activities that involve businesses or service providers in lower-income communities—most often utilizing some sort of public support—you need contacts and enough experience with frequently changing public programs to properly understand the dynamics and the risks. That experience can be earned in different ways.

One alternative might be to make investments or loans into lending or equity funds managed by experienced, mission-driven entities such as the Massachusetts Housing Investment Corporation or Boston Community Capital. Those private, nonprofit entities underwrite community investment transactions and loans or invest the aggregated funds using the same measures of creditworthiness that a bank would use, but without the same formal safety and soundness requirements that regulated banks must meet. A second alternative might be to participate in loans with lending institutions that have more experience.

Over time, lenders who make community investment loans not only will make a contribution to the economic health of their communities but also will garner high-quality new business.

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FOR FINANCIAL LITERACY, THE PLAY'S *THE THING*

MASSACHUSETTS THEATER COMPANY EMPOWERS TEENS TO TEACH OTHER TEENS ABOUT MONEY

CLAIRE GREENE, FEDERAL RESERVE BANK OF BOSTON
Photographs: Allan R. Sinclair

The tooth fairy floats onstage at the high school in Somerville, Massachusetts—lanky, 6 feet tall, wearing a gold-sequined tailcoat. His face paint glitters. The audience titters.

The tooth fairy is distributing $100 bills to characters in the play. What will the lucky recipients do? Spend or save? Open a bank account or hide it under the mattress? Pay debts or give to charity? Analyze or act impulsively? These are serious questions. The giggles stop and a rapt audience settles in for the hour-long production of *Money Matters.*

A Play by Teens, for Teens

In 2011, Youth Underground, the student company of Underground Railway Theater in Cambridge, Massachusetts, created a play about money: spending, saving, borrowing, lending, emotions, and surprises (good and bad).

Now the student actors are touring Boston-area high schools, where they inspire students and teachers to talk about saving, spending temptations, and the idea that money means different things to different people. Cambridge Savings Bank is the sponsor.

To set the stage for a play about money, Evan Diamond, assistant vice president and financial education program manager at Cambridge Savings Bank, led financial literacy classes for the teens. In four 90-minute sessions at Cambridge Savings in Harvard Square, the students learned about budgeting and savings, credit, fraud, and managing a checking account.

Then, working with Youth Underground teacher-facilitator Betsy Bard, they decided what they wanted to know about people and their money. In the process, they faced facts: Money issues can be awkward, and not everyone has money or wants to talk about it.

"So many kids have no idea of the economic situation of their parents," Bard says. "Kids don't know if their parents have a mortgage. They don't know if they're on a food budget."

The teens interviewed 80 people of all ages, from a third grader to grandparents. Each student conducted three taped interviews. There were group interviews, too—with a U.S. Congressman, the mayor of Cambridge, and the superintendent of schools. Brothers, sisters, aunts, uncles, grandparents, and teachers talked about money. Bankers, city workers, and other high school students all talked about money. Then, it was time to weave those stories into a play.

When the high school students shared their first memories of money, half were about the tooth fairy or its equivalent in other cultures. "It didn't matter. Haitian, Spanish, they were all talking about how they knew what their friends got and how exciting it was to hunt around under the pillow and how much they got," Bard said.

For many children, their experience with the tooth fairy was also their first realization that some kids got $20, some $5, some $1, some a quarter. "It raises questions of socioeconomic equity right away," says Maggie Moore Abdow, education director for Youth Underground. So the Tooth Fairy became Bard's organizing device, connecting the words of all the interviewees.

The Power of Storytelling

Despite the tooth fairy, *Money Matters* is real.

"Hearing a story, you emotionally connect. It broadens your empathy. It's not just your world and your concerns and your life."

The students act out the actual words of the people they interviewed. Bard calls this "investigative theater." It is modeled on the work of Anna Deavere Smith, who interviews people and acts out their words on stage.

Tapping into the power of true stories makes lessons stick, says Bard. Instead of a lecture about overdraft fees, students hear a young actor recount the story of a teen who ends up owing $105 because he bought two candy bars with a debit card. The emotional punch makes theater a powerful means of education.

"Hearing a story, you emotionally connect. It broadens your empathy. It's not just your world and your concerns and your life," says Bard. "That's developmental for adolescents, to learn that someone who looks and acts differently from them has a story they can connect to."

Other organizations use theater to teach financial concepts. For example, the Nuestro Barrio telenovela, a 13-episode soap opera targeted to Latino immigrants, contains financial literacy content, all wrapped up in a riveting plot involving a shady used-car dealer, a robbery, and a fire.[1]

The National Children's Theater tours *Mad About Money* to middle schools, with the goal of teaching students about saving and spending.[2] As professional actors perform improvisational comedy sketches that incorporate details of audience members' lives—favorite musicians, best friends, inside jokes—young teens become engaged.

In *Money Matters*, emotions come into play—pride, envy, confidence, fear, surprise, affection. Federico Roitman, a 10th grader at Cambridge Rindge and Latin School, says that while the show teaches both actors and audience members about "the financial side" of money, "it also shows the human side of money and the emotions that come with having or not having it or seeing people with more or less money." Engaging the emotions opens the door to more traditional learning. After the show, students and their teachers may work through the *Money Matters* study guide to explore their own attitudes and gain understanding of concepts like debit card, fees, compound interest, payday loans, and student debt.[3]

The Youth Underground show is different from other projects that incorporate drama and financial education because the teens are in charge as creators and actors. Roitman says of Youth Underground Lead Teaching Artist/Director Vincent Siders: "His method really works with me. He wants to hear our input and hear what we think." In addition to conducting interviews and collaborating on the script, teens made portable scenery, handled the lighting, and understudied one another's roles.

"What You Do Is Up to You"

The Cambridge Savings curriculum is organized around the concept of needs versus wants, which became an important theme of *Money Matters*. Bard hopes the students learn the lesson that they have a choice about what they do. The empowering message is, "What you do is up to you."

The message that people of every age have power to make choices about money provides a foundation for financial literacy. Research by William Walstad, economics professor at the University of Nebraska at Lincoln, has shown that confidence in making financial decisions is just as important as knowledge of personal finance. Walstad and Sam Allgood found that while people who are both skilled and confident are most likely to make the best financial decisions—paying their credit cards in full, for example—people who are unskilled and confident typically make better decisions than those who have knowledge but no confidence.

Feeling good about choices comes up time and again in *Money Matters*. Students talk about walking into a mall with a week's paycheck and leaving with "nothing"; being embarrassed when they can't pay back what they borrowed; the satisfaction of helping others. One vignette contrasts the spending choices of a teen whose parents are always handing over $20 to the habits of a teen who earns her own money. The self-supporting teen concludes that "when you pay for most things yourself, you get to make your own decisions."

Typically, adults who see the show are surprised to learn how young people spend their money. A lot of borrowing goes on. Teens spend a tremendous amount on food. "Adults have no idea how much young people spend on fashion," says Abdow. "Intergenerational audiences are fascinated by the amount of money young people spend and what they spend it on. They run to the mall, and it's gone."

Mindful Money Management

Money Matters provides a way to counteract such thoughtless spending. One sketch involves a grandparent who goes the long way round to work every day, year after year, to avoid a 50-cent toll. As the years roll by, he saves more and more money.

Abdow says, "Students think Netflix is really cheap, it's just $7.99 a month. But over five years, that's a shocking amount of money."

The student actors earn a stipend through the Mayor's Summer Youth Employment Program of the City of Cambridge. Their adult mentors at Youth Underground help them talk about the stipend, what they're spending it on, what they're not spending it on.

Roitman said that doing the show was "the first time I had money coming in. I started looking at the monologue about people going to college and thinking, 'This is how much I should save, how much I should spend.' I definitely started thinking more about the future."

In all sorts of ways, the play opens eyes to the power of money. The closing monologue is told from the point of view of a young person who visits Haiti and is embarrassed by how many pairs of sneakers he owns. The speaker donates many of his possessions and resolves to do more to help others.

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Endnotes

1 Jonathan Spader, "The Bold and the Bankable," *Communities & Banking* 20, no. 4 (fall 2009), http://www.bostonfed.org/commdev/c&b/2009/fall/Spader_Unbanked.pdf.

2 "Mad About Money: Schools Kids on Personal Finance," http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=2454.

3 For a pdf of the study guide, e-mail info@centralsquaretheater.org.

RESILIENCE CIRCLES

BORN IN A STRUGGLING ECONOMY

SARAH BYRNES, INSTITUTE FOR POLICY STUDIES

Illustrations: iStockphoto

Think back to September 15, 2008. Lehman Brothers had just crashed. No one was sure what it meant. Would other banks go too? Would the economy unravel, even collapse?

In the midst of the confusion, a group of people at a church in Boston decided to meet and talk about what had happened. "People were worried, and no one knew what was going on," recalls group member Andree Zaleska. "We just started getting together to talk about the meltdown and what it meant for our own personal economic security."

In hindsight, we know that people were right to be worried. After the events of 2008, we entered a global recession. In America, millions of jobs and homes were lost, and trillions of dollars in savings.

The group in Boston found that their meetings were a huge help in weathering the downturn. "As we started talking," Zaleska says, "we realized that as a group, we had a lot more shared wealth than we thought. It was incredibly helpful to share stories and resources and savings tips with each other. We kept meeting together every month for over two-and-a-half years."

This group turned out to be the first Resilience Circle. Since then, hundreds of Circles (also called Common Security Clubs) have met across the country. They have discovered that when 10 to 20 people get together and begin speaking honestly about their economic fears and concerns, they come up with all kinds of ways to help each other, and they discover a new sense of wealth and abundance. Additionally, they often end up taking social action to address what they see as structural economic and social problems.

Resilience Circles use and adapt a free seven-session curriculum provided by the Resilience Circle Network.[1] The curriculum focuses on learning, mutual aid, and social action. Many groups continue meeting after finishing the curriculum, engaging in activities and projects of their choosing. They have been convened through congregations, neighborhood associations, activist networks, and the like. New ones are forming all the time.

Surviving Tough Times

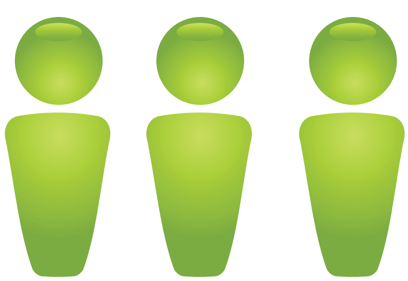
"These are hard times for a lot of people," says Wendee Crofoot, an unemployed member of a Resilience Circle in the Bay Area. When Crofoot lost her job, she turned to members of the group for support. "My Resilience Circle is a network of people I can rely on," she says. The group has created a *time bank* to exchange time, skills, and goods.[2] "As an unemployed person," Crofoot remarks, "I have more time, but less money. It's great to be able to barter and exchange for things I need. Plus, I get to meet people and network."

Networking is crucial during unemployment because unemployment can exacerbate isolation, which in turn can make it harder to find a new job. Resilience Circles provide a space for people to remain connected and engaged with their communities. This connection can help them hear about new job opportunities, and it can also provide emotional support. As Crofoot puts it, "My group reminded me that I am a valuable member of society even if I'm not employed right now. That encouragement has really been huge during this time."

Some members of Circles use the experience to help them launch new business ventures. With help from their groups, participants have published books, taught classes, and set up small businesses. A circle member in Boston began a personal-organizing business, calling upon the contacts from her circle to be her first, pro bono, clients. Their rave reviews helped launch her business in the wider community.

Circle members help each other in lots of other ways, and mutual aid is at the heart of the experience. The curriculum encourages people to start with small acts of support in order to warm up their "mutual aid muscles." Many immigrant and low-income communities never lost the practice of mutual aid, but Americans who gained income often moved away from depending on extended families and neighborhood networks. They stopped asking for help from neighbors because they could afford to pay for things. The ideal of self-sufficiency encourages people not to rely on each other, and many have begun to think of asking neighbors for help as a sign of weakness. They may experience shame and embarrassment. Resilience Circles are a deliberate attempt to combat this sense of embarrassment.

To get warmed up, Circles engage in a process called "gifts and needs," in which members tell each other what they can offer and what they need help with. For example, during this exercise at a Circle in Boston, the facilitator offered to give bike tune-ups. And after several people mentioned wanting to learn to sew, a woman offered to run a sewing class. Another participant offered free haircuts. Then a dog-sitting and childcare exchange bloomed, and people began brainstorming about how to find and share a 20-foot ladder.



In addition to saving money, this activity helps people create relationships that can prove essential in hard times. In Florida, a young man facing foreclosure was able to move with his son into the in-law apartment of an older couple he met at a Resilience Circle. That never would have happened without the relationship-building the Circle provided.

Participants also learn to connect their own economic stories to larger economic trends, such as joblessness, income inequality, and debt. They begin to see that the economic structure behind their situations has problems, and that dispels their shame and embarrassment. People then feel emboldened to take action by directly helping each other through mutual aid and by demanding that policymakers alter the structures that hurt their communities.

For many members of Circles, a new understanding of security begins to take shape—one that is rooted in community connections and new skills. Circles help folks acquire these new skills, making them less reliant on buying things. People learn how to grow and preserve food. They start community gardens. They acquire sewing skills and fix-it skills. Resilience Circles have also seen members venture into new, ecologically based livelihoods. It is not uncommon to hear of someone launching a composting business, a garden supply co-op, or a "chicken consultancy" to teach people how to raise chickens and form egg-sharing co-ops. Many such locally based livelihoods are likely to be sustainable well into the future as food and oil prices rise.

Facing the Future

In Washington state, Billy R. dubs his Resilience Circle a "reality support group."

He says, "All around me I'm surrounded by media and advertising urging me to keep borrowing, buying, and sleepwalking. I love meeting with others who are staring down the potential risks and challenges of the future."

Indeed, the challenges of the future are considerable. That's why the Resilience Circle Network issues this caution: Don't learn alone. Learning alone can be hazardous to your mental health. The Network recommends that individuals learn about the economy and the environment via small groups. A small group comprising people with common concerns can be a source of emotional support for facing the future—and a source of energy for building something different.

When people honestly discuss their future with others, they find the energy to tackle challenges. Trudy McNulty in Portland, Maine, explains, "Facilitating a Resilience Circle feels like providing water to desperately thirsty people. People are hungry for this information, hungry to share their experiences and frustrations, and hungry to gain some control in a world that often seems out of control."

The heart of the experience is using the strength found in community to provide a sense of economic security in the context of recession and an uncertain future. Supportive communities take care of members who are struggling, and they provide a place for people to connect honestly. Anyone can do it. Anyone can take the small step of knocking on a neighbor's door just to say hello. Many congregations, activist groups, and neighborhood associations are hoping that new people will come in with fresh energy and ideas. These are places to gather and begin building a different future. There is plenty to be done, and there is infinite room for many more people to join the ranks of those already benefiting from Resilience Circles.

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Endnotes

1 See http://localcircles.org.

2 See Anna Afshar, "Giving and Receiving in the Nonmonetary Economy," *Communities & Banking* 16, no. 4 (fall 2005), http://www.bostonfed.org/commdev/c&b/2005/fall/nonmonetary.pdf.

THE ROLE OF MEDIATION IN FORECLOSURES

ROBERT CLIFFORD, FEDERAL RESERVE BANK OF BOSTON

Since the onset of the housing downturn in 2006, foreclosures have weighed heavily on the recovery of national, state, and local housing markets. In response to the challenges posed by foreclosures, states and municipalities across the country have implemented a number of foreclosure-prevention strategies. The strategies have ranged from providing homeowners with legal assistance to developing million-dollar mortgage-refinancing programs run by state housing-finance agencies. Unfortunately, most of the foreclosure-prevention efforts have had limited success.

The exception appears to be foreclosure mediation. The reason is that foreclosure mediation solves a basic challenge facing any foreclosure-prevention effort: communication between homeowners and lenders. With a mediator serving as a neutral third party, homeowners and lenders have a clear channel of communication to pursue mutually beneficial alternatives to foreclosure.

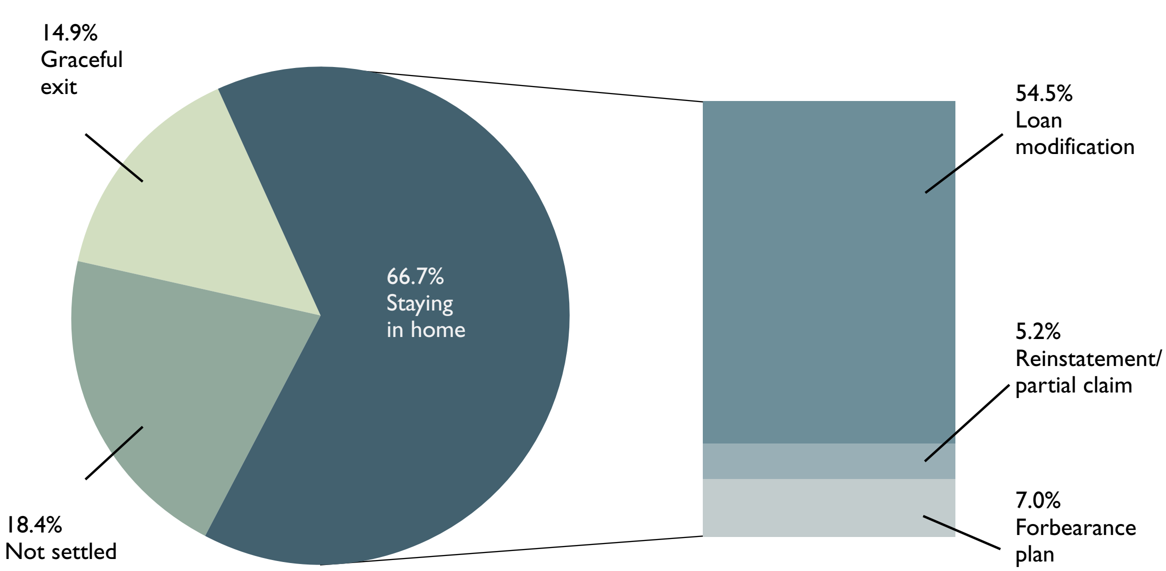
Beginning in 2008, a handful of states and municipalities have been utilizing mediation to prevent foreclosures. As these programs have showed signs of success with finding alternatives to foreclosure, more states and municipalities have developed programs. By the end of 2011, 24 states and the District of Columbia had implemented some form of foreclosure mediation.[1] Of the six New England states, Massachusetts is the only one to not have implemented a mediation program as of this writing.[2]

Successes and Challenges

Available evidence shows that when both parties communicate and participate in the mediation process, an alternative to foreclosure is likely to be found. For an example of the success of foreclosure mediation, we need look no further than the state of Connecticut. (See "Connecticut Foreclosure-Mediation Results.") Since the implementation of Connecticut's statewide foreclosure-mediation program on July 1, 2008, more than 12,800 cases have completed mediation. Of those, more than 10,400 cases (81.6 percent) have reached alternative agreements to foreclosure. A majority of the outcomes are loan modifications (7,000 cases) and other alternatives that allow homeowners to stay in their homes (1,500 cases). The remaining 1,900 agreements were for "graceful exits," such as a short sale or deed in lieu of foreclosure, which allow the homeowner to leave the home through means other than foreclosure.[3] Such results are not unique to Connecticut. Other foreclosure-mediation programs have shown similar rates of success at finding alternatives to foreclosure in Nevada, New Jersey, New York, Ohio, and Pennsylvania.

Massachusetts chose to implement a 90-day "right-to-cure" period in 2008 and further extended the period to 150 days in 2010. The idea was that such periods would allow homeowners and lenders in Massachusetts more time to negotiate alternatives to foreclosure. A recent report by researchers at the Federal Reserve Banks of Atlanta and Boston found evidence that the implementation of the 90-day right-to-cure policy only lengthened the foreclosure timeline and had

Connecticut Foreclosure-Mediation Results as of December 31, 2011



Source: Connecticut Judicial Branch of Statistics no impact on borrowers' ability to cure their mortgage defaults or obtain modifications.[4]

Although that may make foreclosure mediation look like an attractive policy option in comparison, it is important to note that the positive mediation outcomes cited for Connecticut and other states are not universal. New Hampshire, for example, was able to mediate only 100 cases, of which the participants in only 14 agreed to alternatives to foreclosure. That outcome was largely due to the fact the program was voluntary, and there was little incentive for borrowers or lenders to participate. Other programs with poor designs and incentive structures also have struggled to produce results.

Best Practices

To have a good chance of finding alternatives to foreclosure, a mediation program needs to apply the best practices of existing initiatives while avoiding their shortcomings.[5] Such best practices include the following:

1. **Intervening early:** Mediation should get under way as early as possible in the foreclosure process. Early outreach gets to homeowners in better financial situations, improves the chance of finding alternatives to foreclosure, and allows the maximum amount of time to facilitate communication.
2. **Not delaying foreclosures unnecessarily:** To mitigate the effects of foreclosures, it is important that mediation programs do not extend the foreclosure process unless warranted. Only in limited circumstances should mediation be extended beyond the set period. Typically, extensions are warranted only when homeowners and lenders request further time for mediation or when lenders delay the process.
3. **Maximizing participation:** The success of mediation relies on getting both parties to the table. That usually means (a) not allowing foreclosures to proceed unless lenders participate in mediation in good faith and (b) either automatically initiating foreclosure mediation with the homeowner or requiring the homeowner specifically to opt out of mediation if unwilling to participate. Programs with such features have participation rates of 60 percent to 70 percent of eligible homeowners. Programs that require homeowners to opt in to mediation or are voluntary for both lenders and homeowners have participation rates of no more than 20 percent.[6]
4. **Tracking progress and reporting results:** In a rush to implement mediation programs, many states and localities have failed to implement meaningful data-collection mandates or reporting requirements. When results are collected and reported clearly, policymakers and program administrators have been able to respond to shortcomings in the design of mediation by changing program structure to improve results. Additionally, being able to show the amount of demand for mediation services can extend the life of programs.

Unfortunately, a lack of data and analysis of mediation services leaves questions about the success of the alternatives reached in mediation and how well the alternatives worked to prevent foreclosure. In one program, 85 percent of those who reached an agreement to stay in their home remained there a significant amount of time after mediation.[7] For other programs, longer-term results are not available.

Other questions include: What are the characteristics of borrowers who reach alternatives in mediation relative to those who do not? What types of agreements are most likely to prevent a foreclosure and why? Do most modifications that result from mediation programs rely heavily on federal foreclosure programs such as the Home Affordable Modification Program (HAMP)?

A Tool in the Kit

Foreclosure mediation appears to be one of the most effective foreclosure-prevention tools available to states and municipalities. When designed and implemented correctly, such programs can result in a high number of alterative agreements. Although it remains to be seen the extent to which these alternatives result in long-term foreclosure prevention, the initial findings are promising.

Mediation is one potentially effective tool for state and local policymakers to mitigate foreclosures, but mediation alone is not enough to combat the problem. The challenges posed by the housing downturn and the foreclosure crisis are multifaceted and therefore require a multifaceted policy response. Other important issues include the effects of the large stock of foreclosed properties that are now in the possession of the lender (real estate owned, or REO, properties), prolonged vacancies of homes, the stabilization of neighborhoods with concentrations of foreclosures, and the impact of foreclosures on families.

It is important for policymakers and community leaders to recognize there is no silver bullet to the issues surrounding foreclosure but that mediation is one piece that can be used to address a complex policy puzzle.

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Endnotes

1 For a complete list of state foreclosure-mediation programs, see the National Consumer Law Center, http://www.nclc.org/issues/foreclosure-mediation-programs-by-state.html.

2 On September 13, 2011, Springfield, Massachusetts, enacted a city ordinance requiring preforeclosure mediation. However, legal challenges to certain provisions make the future of the program unclear.

3 See http://www.jud.ct.gov/statistics/FMP/FMP_pie.pdf.

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5 Robert Clifford, "State Foreclosure Prevention Efforts in New England: Mediation and Assistance" (New England Public Policy Center research report 11-3, Federal Reserve Bank of Boston, September 2011).

6 Alon Cohen and Andrew Jakabovics, "Now We're Talking: A Look at Current State-Based Foreclosure Mediation Programs and How to Bring Them to Scale" (white paper, Center for American Progress, Washington, DC, June 2010), http://www.americanprogress.org/issues/2010/06/pdf/foreclosure_mediation.pdf.

7 Roughly two to three years. "Philadelphia Residential Mortgage Foreclosure Diversion Program: Initial Report Findings" (white paper, the Reinvestment Fund, Philadelphia, June 2011).

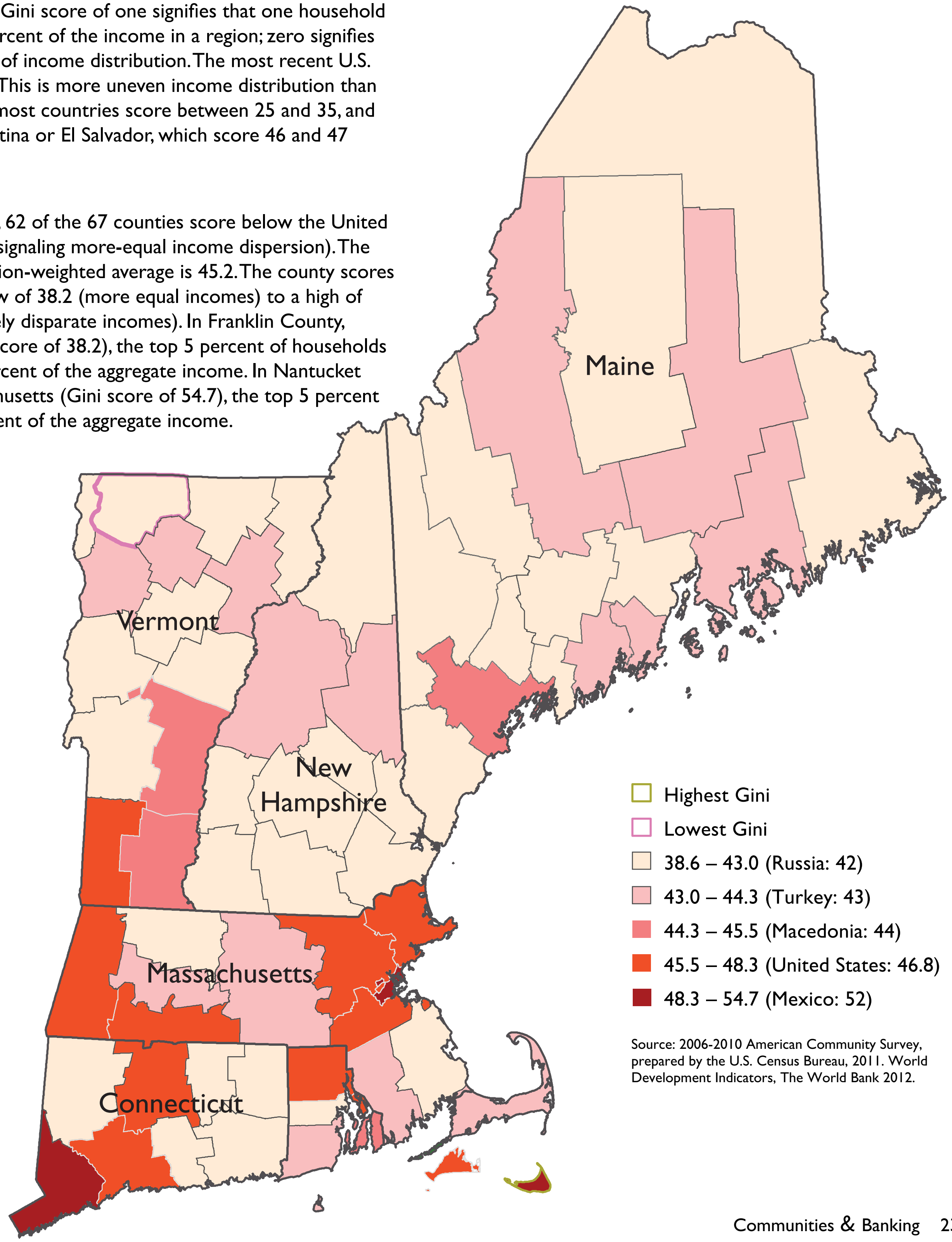
Mapping New England

Income Distribution by County

KAILI MAURICIO, FEDERAL RESERVE BANK OF BOSTON

The Gini score has been used to measure income dispersion for a century. A Gini score of one signifies that one household received 100 percent of the income in a region; zero signifies perfect equality of income distribution. The most recent U.S. score was 46.8. This is more uneven income distribution than Europe, where most countries score between 25 and 35, and similar to Argentina or El Salvador, which score 46 and 47 respectively.

In New England, 62 of the 67 counties score below the United States average (signaling more-equal income dispersion). The region's population-weighted average is 45.2. The county scores range from a low of 38.2 (more equal incomes) to a high of 54.7 (most widely disparate incomes). In Franklin County, Vermont (Gini score of 38.2), the top 5 percent of households receive 16.6 percent of the aggregate income. In Nantucket County, Massachusetts (Gini score of 54.7), the top 5 percent receive 34 percent of the aggregate income.



Source: 2006-2010 American Community Survey, prepared by the U.S. Census Bureau, 2011. World Development Indicators, The World Bank 2012.

Geographic Segregation

The Role of Income Inequality

BENJAMIN FORMAN AND *CAROLINE KOCH,* MASSINC

Photograph: Corbis

A half century ago, Massachusetts was one of the country's most egalitarian states. Today it has one of the most unequal income distributions. As income inequality has grown, so too has the degree of income segregation in regions across the state.

The clustering of rich and poor into separate neighborhoods may have been a largely unavoidable symptom of the growing income gulf between rich and poor. But there are other potential explanations for increasing income segregation. For example, changes in land-use regulation and housing policy may lead to greater income segregation, too. Moreover, if income segregation acts as a drag on economic mobility, so that families in poorer neighborhoods fall further behind economically, or if it gives those in wealthier neighborhoods advantages that help them get further ahead, it may in itself lead to greater income inequality.

We know surprisingly little about the factors that shape income segregation and how it interacts with income inequality, but new research exploring the relationship is starting to provide a better indication of how the state's changing income distribution may contribute to neighborhood change.

New Research

Research shows that income inequality in U.S. metropolitan areas has grown quite rapidly over the last several decades. Income segregation has also increased, closely mirroring the growth in inequality.[1]

Two recent studies, which use measures of economic segregation that are mathematically independent of rising inequality in a metro area's income distribution, provide evidence that increasing inequality contributes directly to increasing income segregation. Analyzing change between 1970 and 2000, Tara Watson of Williams College found that a one-standard-deviation increase in inequality drove up income segregation by 0.4 to 0.9 standard deviations.[2] Using a different method, Sean Reardon at Stanford University and his colleagues found that income inequality's impact on income segregation over the 30-year period was somewhat lower than Watson's findings suggest, but that growing inequality nevertheless accounted for approximately 60 percent of the rise in income segregation across the nation's 100 largest metro areas.

The studies concur in finding that the connection between rising inequality and increasing income segregation is largely driven by the fact that families at the top of the income distribution are geographically separating themselves as they become more affluent. Reardon's research includes geographic models that show wealthy families are increasingly segregating themselves by significant distances. That finding could help explain why income segregation runs higher in larger metropolitan areas. Smaller ones may simply lack the scale for affluent families to cluster away from others.

Consider how income distribution has changed in Massachusetts, for example. Recent research by MassINC and Northeastern University's Center for Labor Market Studies shows that the change has largely been in the form of increased *upper-tail inequality*—the people at the top getting wealthier. Between 1989 and 2009, families at the 99th percentile of the distribution experienced a 47 percent gain while families in the middle of the distribution saw their income rise just 4 percent.[3]

Estimates published last year in the journal *MassBenchmarks* show that growth in upper-tail inequality has been most pronounced in Greater Boston, the region in the state with the largest and fastest-growing income disparities.[4] But although Greater Boston exhibits a high degree of income inequality, income segregation is surprisingly similar to other regions in the state and has actually risen at a slower pace over the last two decades. (See "Changes in Regional Income Segregation, 1990 to 2007.")[5]

Boston's modest increase in economic segregation despite steep increases in inequality stands in marked contrast to other large metro areas nationally. Greater Boston's inequality level ranks 10th highest among metro areas with more than 1 million residents, yet it has much less family-income segregation relative to other places with uneven income distributions. (See "Income Segregation and Income Inequality by Region, 2007.") A common measure of income inequality, the Gini Index, shows that Boston is similar to Chicago, Philadelphia, and Detroit in that regard.[6] Nevertheless, the latter three metro areas have far higher levels of income segregation. In Philadelphia, for example, 43 percent of residents live in either a poor or an affluent neighborhood. A mere 30 percent of Greater Boston's residents live in such extremely income-segregated neighborhoods.[7]

Isolation in Smaller Cities

Boston's relative income diversity is perhaps testimony to the exceptional efforts of those working to build mixed-income neighborhoods. The region is known for some of the nation's most productive community development corporations, for example. And inclusionary zoning has helped maintain diversity in the urban core, while the state's innovative 40B statute has helped provide affordable-housing opportunities in exclusive suburbs.[8] Although such efforts are pronounced in Greater Boston, the same cannot be said of other regions in the Commonwealth, where income segregation is steadily growing. The rise in income segregation has been particularly intense in the state's so-called Gateway City regions and should be a concern.[9]

In 1990, the state's Gateway City regions contained predominantly middle-class neighborhoods. Around two-thirds of residents in Greater New Bedford, Springfield, and Worcester lived in middle-income neighborhoods. Over the last two decades, that ratio has fallen precipitously. In 2007, Worcester's middle-income neighborhoods were down to 55 percent of metro area residents. Middle-income neighborhoods were home to less than half of all residents in New Bedford.

In regions across the state, middle-income neighborhoods have been replaced by both poor and affluent neighborhoods over the last two decades. (With the exception of Greater Worcester, the increase in the share of residents living in poor census tracts has outpaced the growth in residents living in affluent neighborhoods.) In Gateway City regions like Greater New Bedford, poor neighborhoods invariably multiplied within the central city, while more affluent neighborhoods appeared in the surrounding suburbs.

When families with limited means become geographically isolated, the jurisdictions where they live have reduced tax capacity, and that in turn means there will be

Changes in Regional Income Segregation, 1990 to 2007

	Segregation index			Percent of residents living in each type of neighborhood												
				1990					2007					change		
Metro area	1990	2000	2007	poor	low income	middle	high income	affluent	poor	low income	middle	high income	affluent	poor	affluent	poor or affluent
Boston	0.111	0.134	0.137	11	10	58	10	11	17	9	47	13	13	6	2	8
New Bedford	0.070	0.083	0.141	9	12	65	9	5	24	5	40	17	15	14	10	24
Springfield	0.101	0.110	0.132	11	6	68	11	4	17	13	42	22	7	6	3	9
Worcester	0.087	0.117	0.118	11.4	6.4	66.2	14	2.2	15	9	55	12	8	4	6	10

Source: Authors' estimates using decennial Census and 2006-2010 American Community Survey (labeled 2007) from Sean Reardon and Kendra Bischoff, "Income Inequality and Income Segregation," *American Journal of Sociology* 116, no. 4 (2011).

Income Segregation and Income Inequality by Region, 2007

Metropolitan area	Gini index (2008)	Segregation index (2007)	Percent of residents living in poor or affluent neighborhood
Boston*	0.47	0.137	30
Chicago	0.47	0.170	33
Philadelphia	0.47	0.208	43
Detroit	0.46	0.194	46

Sources: Census 2007-2009 American Community Survey (ACS) estimate; 2005-2009 ACS (labeled 2007) from Sean Reardon and Kendra Bischoff, "Income Inequality and Income Segregation," *American Journal of Sociology* 116, no. 4 (2011).

*Author's calculations following Reardon and Bischoff.

fewer good-quality public services for those families. (Such phenomena may be particularly pronounced in states like Massachusetts, where virtually all local government services are provided by cities and towns with small geographic spread.) The most obvious area where we would expect to see this have an impact is in education. Indeed, research nationally finds that increasing economic segregation increases the performance of children from high-income families and reduces the educational attainment of students from low-income families.[10]

As the quality of public services begins to vary more across communities, neighborhoods may have a difficult time attracting middle-income residents, and the potential for a downward spiral becomes very real. Over time, the process of neighborhood change can concentrate poverty in a few neighborhoods. A body of work by the Federal Reserve System and the Brookings Institution documents the negative implications of living in severely distressed neighborhoods.[11] Since 1990, as the number of poor people in Massachusetts has growth by one-fifth, the number of Massachusetts residents trapped in neighborhoods with highly concentrated poverty has increased by even more, nearly one-third.[12]

Given mounting state and federal budget deficits, low-income communities are unlikely to see the support from higher levels of government that would be needed to help address the effects of growing economic segregation. Retaining economic diversity in the face of increasing inequality will be key to the quality of service delivery of local governments, and by extension, the economic stability and upward mobility of lower-income residents.

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6 The Census Bureau provides Gini values for all metro areas using American Community Survey data. The Gini Index is a common measure of income inequality. A Gini Index of zero equals a distribution in which all households have the same income; one signifies a distribution in which a single household earns all of the income. Although the Segregation Index has been calculated using family income and the census derives Gini values using household income, household and family measures of inequality tend to be relatively consistent across regions.

7 Census tracts were classified on the basis of median family income as a percentage of metro-area median family income following Reardon and Bischoff. Accordingly, poor = <67 percent median family income; low-income = 67 percent to 80 percent; middle income = 80 percent to 125 percent; high income = 125 percent to 150 percent; affluent = >150 percent of median family income.

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12 Highly concentrated poverty is defined as a census tract in which more than 40 percent of residents fall below the federal poverty threshold. In 1990, 42 census tracts with 100,838 residents met the definition in Massachusetts. The 2005-2009 American Community Survey data show this figure has increased to 53 census tracts housing 132,425 residents.

Illustration: Corbis

Incarceration & Community Health

Brad Brockmann and *Josiah D. Rich*
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The United States incarcerates a higher percentage of its residents than any other country. With less than 5 percent of the world's population, it has almost 25 percent of the world's prisoners. In 2010, one of every 31 U.S. adults was either in prison or on probation or parole.[1] The rate jumps to one in 11 for black men, and is even higher in poor, urban neighborhoods.

Most of the post-1970s explosion consists of low-level, nonviolent offenders, the majority suffering from medically recognized illnesses. The War on Drugs and a failure to treat mental illness, addiction, and drug dependence adequately in the community have driven the incarceration epidemic. And because the effects of incarceration (absentee parents, lack of future employment options, persistent addiction) are concentrated in low-income neighborhoods, community health suffers, too.[2]

Mental-Health and Drug Issues among Prisoners, 2002 and 2004

Mental-health disorders, drug dependence, and drug abuse among inmates in state and federal prisons (2004) and local jails (2002), compared with the noninstitutionalized population

Sources: *Survey of Inmates in State and Federal Correctional Facilities* (2004) and *Survey of Inmates in Local Jails* (2002), Bureau of Justice Statistics. See also http://www.oas.samhsa.gov/nhsda/2k2nsduh/results/2k2Results.htm#chap8.

*Based on criteria specified in the *Diagnostic and Statistical Manual of Mental Disorders*, 4th edition.

	Percent of inmates in			
Condition	State prisons	Federal prisons	Local jails	Percent of all U.S Population
Symptoms of mental-health disorders*	49.2	39.8	60.5	10.6
Major depressive disorder	23.5	16.0	29.7	7.9
Mania disorder	43.2	35.1	54.5	1.8
Psychotic disorder	15.4	10.2	23.9	3.1
Percent of people needing mental-health treatment who received it	33.8	24.0	17.5	13.0
Any drug dependence or abuse*	53.4	45.5	53.5	2.0
Dependence (only or with abuse)	36.1	28.7	35.8	0.6
Abuse only	17.3	16.8	17.7	1.4
Percent of people needing drug treatment who received it	14.8	17.4	6.9	–

Two Main Causes

Two overlapping phenomena account for most of the rise in incarceration: deinstitutionalization of the mentally ill and increasingly harsh sentences for drug use. The nation's three largest psychiatric facilities are in jails (in Los Angeles, Chicago, and New York City). According to surveys conducted in 2002 and 2004, more than half of all prison inmates (two-thirds of people in local jails) suffer from mental-health problems. (See "Mental-Health and Drug Issues among Prisoners.") Prisoners are five times more likely to have mental-health disorders than the general public, with even higher rates for serious mental illnesses.[3]

The number of people incarcerated for drug crimes in 1980 (40,000) had swelled to almost 500,000 by 2008.[4] Most aren't key players.[5] In 2010, for example, about 80 percent of drug offenders were charged only with possession (frequently marijuana). The vast majority are black or Hispanic and poor, and although drug usage is comparable across racial and ethnic populations, blacks and Hispanics are more likely than whites to be in prison for drug crimes.[6] In Massachusetts, for example, nonwhites were 20 percent of the state's population in 2006 but 54 percent of those convicted of drug crimes. They represented almost 75 percent of those sentenced to incarceration.[7]

In 2010, U.S. "drug czar" Gil Kerlikowske admitted the War on Drugs had not succeeded.[8] Despite tough policies, from 2004 to 2010, the number of illicit drug users actually rose from 19.1 million to 22.6 million.[9] The "war" had succeeded only in incarcerating more people who were drug dependent or drug abusing—recognized disorders.

More Cost-Effective Ways

Using incarceration to prevent drug use is inefficient, ineffective, and expensive. In Massachusetts, incarcerating a drug user in state prison costs $48,000 annually and doesn't cure the individual or benefit society. Treatment benefits both.[10] Offenders who receive treatment are less likely to re-offend; their rates of employment increase; their health improves. Successful treatment is cost-effective, reducing government spending for health care, criminal justice, and social services. Treatment can reduce crime rates by 80 percent and reduce arrests by 64 percent.[11] According to the State Associations of Addiction Services, taxpayers save $7 for every $1 spent on treatment.

Compounding the issue is the relation between health and socioeconomic status and race. Low-income people, blacks, and Hispanics generally have worse health outcomes than Caucasians and higher-income people.[12] Except in Massachusetts, the poor often lack health insurance, especially single, unemployed, or underemployed individuals who don't qualify for Medicaid. Prisoners from communities lacking good health-care access have high rates of illness, including mental illness and addiction.[13] A 2002 report in Massachusetts found that 80 percent of chronically ill prisoners had not received regular medical care prior to incarceration, 90 percent had no health insurance, and more than half relied on emergency rooms when not in prison.[14]

About 600,000 people leave state or federal prison annually; 7 million leave local jails. What happens with the 95 percent of all inmates who are released and returned to communities? Even though the U.S. Supreme Court mandates that inmates be provided necessary medical care, few will have received it, especially if they suffer from mental illness or addiction.[15] Even when adequate care is provided inside, release generally means returning to poverty and limited health options. According to one national study, 68 percent of the men released and 58 percent of the women are uninsured and unable to afford care.[16]

Diverting low-level drug offenders to treatment instead of incarceration is cost-saving and humane. The Massachusetts Bar Association's 2009 *Drug Crimes and Incarceration Rates in the Commonwealth* estimated that net savings of diverting one drug offender sentenced to less than four months at a cost of $11,700 would amount to $4,620 after costs for treatment and probation. In 2006, for example, diverting 1,426 possession offenders with nonviolent criminal histories would have resulted in net savings to the Commonwealth of over $8 million.

Recently released prisoners often neglect their health as they struggle to find housing and work, and to rebuild families. Jobs for ex-offenders are few, and lack of earnings may result in a return to illegal activities. Moreover, in most states, a felony drug conviction eliminates or limits eligibility for public assistance, including food stamps, welfare, and student loans. A convicted murderer or rapist with no drug record would generally not face similar penalties.

U.S. policies hinder the delivery of medical care to low-income and incarcerated individuals. A key step in improving the situation would be to increase medical treatment in both community and correctional settings. Politicians have begun to recognize the unsustainability of the current system and the potential savings from additional community-based treatment.[17] The proposed expansion of Medicaid in 2014 would permit virtually all former prisoners to receive health-care coverage, potentially redirecting individuals with serious illnesses away from the revolving door of the criminal justice system while decreasing costs and improving public health in low-income communities.

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When Neighboring Jurisdictions Collaborate on Housing

SUSAN LONGWORTH, FEDERAL RESERVE BANK OF CHICAGO

Illustration: iStockphoto

Some housing challenges do not respect municipal boundaries. Obvious examples are the way one municipality's stock of workforce housing or its high levels of foreclosures can affect neighboring municipalities. But as recent experience in metropolitan Chicago demonstrates, *interjurisdictional collaboration* (IJC) can offer solutions. Through IJC initiatives, communities can share expertise, gain access to funding, and implement programs they could not manage on their own.

A 2011 Federal Reserve Bank of Chicago study documents how four clusters of Chicago suburbs, ranging in size from five towns to 22, are tackling affordable housing.[1] The communities studied are racially, ethnically, and economically diverse. Most have populations under 20,000. Many face serious challenges, such as the highest foreclosure rates in their metropolitan statistical area or the inability of workers to afford homes near their jobs. Nevertheless, local needs are beginning to be met. As of this writing, Chicago-area collaboratives have raised over $25 million from public and private sources and have rehabbed or redeveloped more than 140 homes and multifamily units.

Interjurisdictional Collaboration Defined

IJC is defined here as a strategy to leverage external resources and align internal strategies to collectively address common issues and goals that cross municipal boundaries and to capture resulting efficiencies.

IJC does not require any change to municipal governance structures. But before it can gain momentum, local leaders must build trust around common goals and strategies. Progress may be slow, measured initially in process rather than outcomes. IJC's appeal is the opportunity to pool resources and focus them where most needed. Even if some participating communities receive no direct investment, they can benefit through the spillover effects of collective action.

IJC is not new.[2] However, it got a boost at the federal level in 2010, when the Office of Sustainable Housing and Communities launched the Sustainable Communities Grant Program "to stimulate more integrated and sophisticated regional planning to guide state, metropolitan, and local investments in land use, transportation, and housing, as well as to challenge localities to undertake zoning and land-use reforms."[3]

When is IJC likely to work? Historically, it has succeeded when at least a few of the following conditions were present:

- a catalytic crisis (economic or natural)
- a political constituency (the voting public) that has demonstrated its openness to collaboration
- capacity-building assistance or other incentives provided by external sources
- early and continued support by elected officials
- advantages of cooperation that are visible to participating governments
- a "policy entrepreneur" who can see beyond existing structures
- early focus on visible, effective strategies
- an emphasis on building collaborative skills[4]

The Chicago Story

In some IJC examples, for example in California's Silicon Valley or in Seattle, county government or private-sector actors play a leading role. In Chicago, the regional planning and policy organizations—including the Metropolitan Mayors Caucus, the Metropolitan Planning Council (MPC), and the Chicago Metropolitan Agency for Planning—engaged the communities and municipal leadership, and secured key funding and information resources.

Significantly, in 2003, former Chicago Mayor Richard M. Daley asked nonprofit Neighborhood Housing Services (NHS) to bring foreclosure-prevention services under a single umbrella: the Home Ownership Preservation Initiative, or HOPI. In 2007, HOPI was expanded through a partnership with the Federal Reserve Bank of Chicago, the Chicago Community Trust, and NHS, to create a regional version of HOPI, called Regional HOPI. RHOPI convened more than 100 governmental, nonprofit, and private-sector practitioners to address the foreclosure crisis by creating a collaborative framework. That framework eventually supported IJCs.

With the onset of funding through the American Recovery and Reinvestment Act of 2009, hard-hit Chicago-area communities were able to leverage the relationships they had created through initiatives such as RHOPI to create IJCs and access new opportunities.[5] For example, an IJC called Chicago Southland Housing and Community Development Collaborative (CSHCDC) secured almost $9 million in NSP funding. Although 21 communities signed on to that application, it was agreed that directing resources to just 11 hardest-hit individual communities would benefit everyone.

In another example, NSP funding provided the catalyst to create the five-community West Cook County Housing Collaborative (WCCHC). Once again, although all five communities signed the application, the WCCHC elected to focus the resources in two suburbs where the need was greatest.

IJC can make people willing to share. "By working together, [municipalities] can pool resources, prioritize investments for maximum benefit, achieve economies of scale, and create a 'one-stop shop' for developers, employers, and lenders," writes the MPC's Kim Grimshaw Bolton.[6]

IJC requires a shift from thinking about individual community stabilization as the ultimate goal to thinking about subregional stabilization as the goal. Participating communities acknowledge that even if they don't get direct dollars, all members of a collaborative benefit if there is increased regional stability. However, it does take work to ensure that all participants feel they have gotten something, a key success factor.

The Word Is Out

Now that collaboratives are seen to be securing resources, interest in joining has increased. That can put pressure of the size of the collaborative. Chicago leaders suggest starting small, with limited, focused goals. Although some experts argue that small collaboratives exacerbate the resource constraints that motivated the collaboration in the first place, others point out that if collaborations are too large, finding a point of mutual self-interest can be much more difficult.[7]

A second challenge is transparency, always critical to success. One Chicago collaborative addresses transparency by operating under the Public Meetings Act. Another is developing a criteria-based tool to facilitate objective decision making and help all stakeholders understand the process.

A third challenge is management of the collaborative. The Chicago collaboratives have taken a variety of approaches to management. One collaborative might hire a single coordinator (as the CSHCDC did), another might contract with an established housing organization (as did the WCCHC), yet another might delegate to an organization already working within the collaborating communities (as in an informal collaborative in the northern Chicago suburbs).

A fourth challenge is to explain what exactly an IJC is. Although collaboratives have executed intergovernmental agreements (IGAs) and resolutions, none is its own legal entity. That is because most collaborative leaders feel that it is premature to incur the effort and cost of establishing a separate organization when interjurisdictional collaboration may still be in "proof of concept."

Understandably, with IJCs at different stages of formalizing their relationships, the entities remain confusing to funders. Once collaboratives do receive funding, however, formalization of the relationships generally follows quickly. In the words of one coordinator, "structure fosters engagement, commitment, and accountability."

The final challenge is measurement. Although all communities get something out of the collaboration, not all benefit equally. Thus, what may be deemed a success for the collaborative may be perceived as a loss by residents of a given community. Thus some Chicago collaboratives cite their primary successes as just their procedural steps, such as establishing regular meetings or executing an IGA. Others have more tangible results, such as homes sold or rental units preserved.

With clearly articulated and measured benefits—economic efficiencies, gaining access to more resources, capturing the spillovers from collective actions, and the like—the justification for IJC seems clear. Nevertheless, more time, experience, and research are needed to answer some longstanding questions: how higher levels of government might best encourage interjurisdictional municipal collaboration; which IJC structures are sustainable; how IJCs can attract and utilize more public-sector programs and private-sector partnerships; how best to engage with outside facilitators and technical assistance providers; and how the long-term results should be measured.

Clearly, success for collaborative efforts requires a long time horizon. But as one planner acknowledged, rehabbing three homes may not change a community, but it can change a block. And communities change one block at a time.

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