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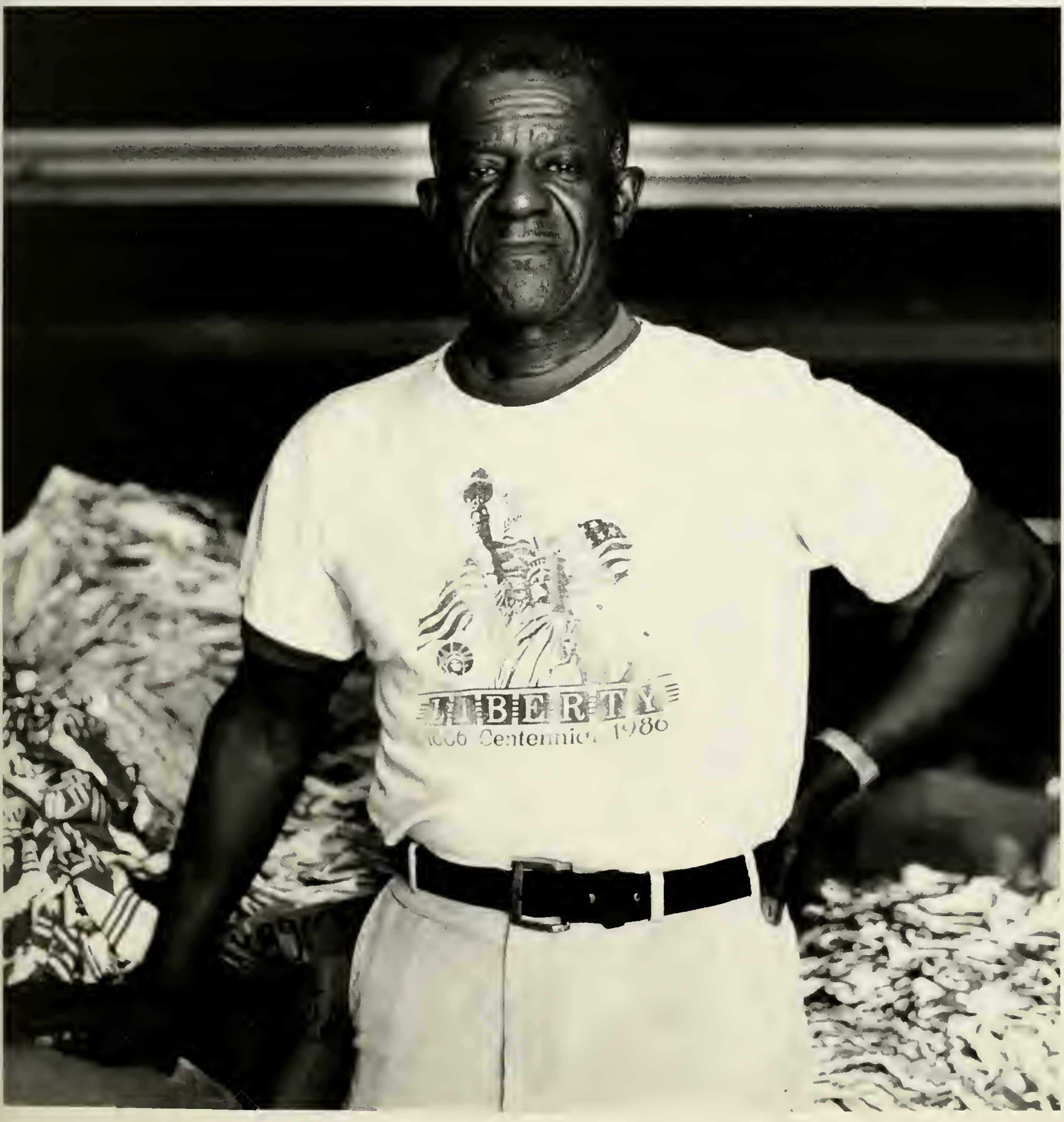

Editor's Note

Housing and community development encompass an ever-evolving and growing range of concerns. Local economies brace for the impact of a sweeping national recession; restructuring of what constitutes a "family" redefines the need for social services; and government assistance programs emerge, change and disappear. Housing and community development planners must stay on top of the insurmountable, to consider everything in the broad range of public and private programs and then to be shrewd and flexible enough to adapt.

This edition of Carolina Planning focuses on housing and community development issues, an area to which we admittedly have not devoted enough coverage in the past. We have assembled articles representing the concerns of many interest groups; however, there were many more we would have liked to include.

In Carolina Planning's Forum section, Michael Stegman, chairman of University of North Carolina, Chapel Hill's Department of City and Regional Planning and consultant to HUD, discusses the growing need for low-income housing, including the relative merits of resident ownership in public housing projects and the keys to the success of some government programs. Tom Schlesinger looks at the impact of the commercial banking industry on local communities in the wake of recent mergers, and offers some recommendations for policy makers.

Robert Schall takes us from conventional banking to economic development banking in his review of North Carolina's Self-Help Development Bank in the In The Works section. Sharon Levy and David Spence, UNC interns with the Durham Housing Improvement Corporation, discuss the "circus" created by the Resolution Trust Corporation's first North Carolina auction.

We also learn to look at housing and community development planning from three entirely different perspectives. Paul Ketcham and Scott Siegel of the 1000 Friends of Oregon examine the success of promoting affordable housing through land use planning in Portland. UNC graduate Julie Locascio provides an in-depth account of the political turmoil and the unique problems of planning for a growing refugee population in Central America. And UNC professor William Rohe discusses the new imperative for planners--coordinating housing and social services--with a focus on Charlotte's Gateway Housing Program.

A bit off the beaten path, we've included two additional articles dealing with environmental aspects of community planning. One, by former Carolina Planning editor Paul Kron, reviews the Wake County Planning Department's efforts to protect rural highway corridors from strip development. The other, by Robin Corathers of The Hillside Trust, discusses her organization's efforts in Cincinnati to create a comprehensive hillside protection strategy to serve as a model program for other communities.

Finally, this issue of Carolina Planning has undergone significant layout and design changes from past issues. Thanks to the tireless efforts of editors Margaret Stewart and Steven Stichter we have a new look that we think is stylistically superior to previous issues. We hope our readers think so, too.

This issue of Carolina Planning by no means exhausts the abundant supply of ideas on housing and community development. We expect to cover more of these and related issues in the future; therefore, we encourage readers to respond to the content and design of this issue, and to submit their own article ideas for publication.

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Carolina Planning welcomes comments and suggestions on the articles published. We are currently accepting articles for our Fall 1992 issue. Please address all correspondence to: *Carolina Planning*, The University of North Carolina at Chapel Hill, Campus Box # 3140, New East Building, Chapel Hill, North Carolina 27599-3140.

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Low Income Home Ownership: Now More Than Ever

Michael A. Stegman

In late 1989, members of the American Society of Real Estate Counselors participated in a survey about the major forces that will influence real estate over the next two decades.[1] The respondees agreed overwhelmingly that the economic environment of the United States would determine the vitality of the real estate market. Despite a soft economy, there was substantial optimism. Nearly half felt that interest rates would stabilize at about 9 percent over the next 10-20 years. Of the remainder, however, almost twice as many expected interest rates to increase as expected them to fall. The more optimistic expectations were based on a belief, shared by nearly two-thirds of the experts, that the United States would become more competitive in world markets during the next twenty years, resulting in an improvement in the U.S. balance of trade.

According to many observers, however, the globalization of the American economy, and its transformation away from goods production toward services and information processing will lead to greater income inequality during the 1990s. Job losses will continue in higher paying, traditional goods-producing industries with low educational requirements. Job growth will be concentrated in newer, more technologically-oriented sectors with high wages and educational requirements, as well as in the service and retail trade sectors, which have lower pay and educational requirements.

Despite the fact that our increasingly globalized economy is creating large numbers of high-wage, highly skilled jobs, "the dominant trend in American job creation during the 1970s was for low-paying jobs to replace those which formerly provided a middle-class standard of living."[2] This trend will continue into the 1990s. One recent national study shows that 64 percent of American jobs paid middle-level wages in 1979, while the share of middle-wage jobs created during the 1980s was only 38 percent. Over half of the net increase in employment was in poverty-level jobs.

During roughly this same period, inflation-adjusted rents for poor households living in unsubsidized housing increased by nearly a third.[3] Since 1981 all rents have risen 16 percent faster than inflation.[4] As a result, real residential rents in the United States are higher now than at any time during the past 20 years. This rent inflation has exacted a heavy toll on the supply of affordable housing, suggesting that homelessness will not abate and that housing affordability problems will become even more widespread and persistent.

According to the Joint Center for Housing Studies, the number of units renting at or below $300 a month in real terms fell by one million between 1974 and 1985.[5] Looking ahead, another 30 percent of this stock is estimated to be physically inadequate or at risk of loss through upward market pressures.[6] Even without the dramatic cutbacks in federally assisted housing during the Reagan years, the affordable housing crisis would have worsened.

Apart from the convincing argument for substantially more federal housing assistance of all kinds, there is an equally compelling case for more low-income home ownership assistance. For many years, the poor have not received an equitable share of federal housing subsidies. In just 1989 and 1990, the amount of federal tax expenditures for all home owners totaled $107 billion, two-thirds of which went to households with incomes of $50,000 or more. This was approximately equal to the amount of money spent directly on all low-income subsidized housing programs during the 1980s. These same tax breaks for home owners exceeded $80 billion in fiscal 1991 alone, which is more than five times greater than all budget outlays for assisted housing by the Department

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of Housing and Urban Development (HUD).

Home ownership assistance would also enable families to gain financial equity in an asset. This could be especially important to low-income minorities because equity in a house represents a very large portion of the net wealth of minority households.[7] In 1988, 54 percent of the average home owner's net wealth was equity in a house. Although both net wealth and home equity were lower among black owners, equity accounted for fully 80 percent of their net wealth. Among Hispanics, home equity represents virtually all (98 percent) of a household's net wealth.

For a variety of reasons, including racial discrimination, minority home ownership rates are substantially lower than those for whites. This also means that "the lack of home ownership opportunities for...[minorities] has undermined their ability to accumulate wealth."[8] It further implies that properly structured low-income sales programs could help remedy this injustice.

Significantly, the majority of public housing residents are minorities, as were more than 90 percent of all home buyers in HUD's recently completed national Public Housing Homeownership Demonstration. The amount of equity that public housing buyers ultimately accrue in their units will depend upon the extent to which the initial pricing and financing of the transaction accurately reflects underlying market value, the nature and length of resale restrictions, and the prospects for price appreciation.

As long as there is real value present to begin with, a low-income family can realize a relatively large increase in net wealth even in a flat market, because home ownership is such a highly leveraged investment. Each one percent increase in price boosts a home owner's return to equity by ten times that amount if she has a 90 percent mortgage, and by 33 times with a 97 percent loan. The combination of mortgage amortization and a five-year price-appreciation rate of just 3 percent a year for a house that was financed with a 30-year, 97 percent Federal Housing Administration (FHA) loan will generate a 40 percent annual return on initial equity. In just five years, this modest rate of market appreciation will produce more than a four-fold increase in the home owner's initial equity.

There is a third, and often underemphasized, argument in favor of low-income home ownership programs. Targeting the program to higher-income occupants of public- and other federally-subsidized rental housing will make these units available for poorer families on the waiting list. According to HUD, it costs around $69,000 to build a typical new public housing unit. The operating subsidy needed to keep the rent affordable to the very poor over the economic life of the public housing unit would add another $10,000-$15,000 (in present value terms) to the federal cost. A program that would open up an existing public housing unit by helping a family move into home ownership at a long-term federal cost of less than $80,000 a unit is more cost-effective than building more public housing.

The FHA Reform Bill

Although the Bush Administration's one program, the HOPE initiative, is consistent with a home ownership-oriented, low-income housing policy, recent actions to tighten FHA mortgage lending regulations are not. Stimulated by a Price Waterhouse audit of the FHA insurance fund which found that losses exceeded premium income by a wide margin on FHA transactions that took place between 1975 and 1985, the FHA reform measure enacted into law as part of the 1990 National Affordable Housing Act increased up-front cash requirements on a $70,000 house by more than $1,300 (a 44 percent increase). This is the result of an additional insurance surcharge on low down payment loans, and a two-thirds reduction in the amount of closing costs that can be financed.

The Administration's emphasis on restoring the FHA Insurance Fund to fiscal solvency is not necessarily misplaced. However, requiring unsubsidized, lower-end FHA insured loans to cover their own losses while at the same throwing millions of dollars at a public housing home ownership program that is cost-driven and without market-based discipline does not make a whole lot of policy sense.

Ironically, those in the Administration who successfully raised the cost of FHA financing to moderate-income families in the name of fiscal integrity are the same officials who have already approved spending more than $30 million (more than $65,000 a unit) on the rehabilitation of the 464-unit Kenilworth-Parkside public housing complex in Washington, DC. The Federal government has since sold the complex to a resident management council for one dollar. While preaching actuarial soundness for FHA, HUD gave its blessing to a preliminary plan to convert Kenilworth-Parkside into a limited equity co-op. To maintain its long-term viability, this plan would have required resident incomes to increase each year at a rate substantially greater than the national average. When the General Accounting Office (GAO) questioned the unrealistic underwriting assumptions of the Kenilworth-Parkside conversion, the project's financial consultant defended the financing plan with the comment that "in order to prove themselves financially capable of purchasing their apartments, a significant number of [Kenilworth-Parkside] families will declare the additional [unreported] income they are already making."[9]

The Administration's move to tighten up FHA's first-time home buyer programs in accordance with the Price Waterhouse recommendations, while not doing the same to its various public housing home ownership initiatives, is myopic at best. At worst, it suggests an implicit policy to get the federal government out of the public housing business at any cost.

The Lessons of the Price Waterhouse Study

The Price Waterhouse study contains five findings that are particularly relevant to low-income home ownership. First, there is an inverse relationship between the rate of inflation for house prices in the country and rates of mortgage default. During the late 1970s, when house prices appreciated at about 12 percent a year, FHA default rates were very low. Since 1980, house prices have increased less than 3 percent per year and default rates have surged.

Default is most likely to occur when a borrower has negative equity in a property. This usually happens because the value of the property has fallen below the loan balance. While a borrower's equity is a function of several factors, the two most important factors are the initial loan-to-value ratio and the subsequent price appreciation of the property. Holding appreciation rates constant, lower down payments result in higher default rates. In fact, borrowers with an initial down payment of 3 percent or less defaulted on their mortgages five times more frequently than those whose down payments exceeded 25 percent. To attach numbers to these rates, nearly 9 percent of all recent FHA loans with an initial down payment of 3 percent or less have already failed. This compares with a failure rate of less than 2 percent for loans with an initial down payment of 25 percent or more. Additionally, within the FHA portfolio, lower valued loans also tended to have a higher rate of default. This was especially true for houses valued under $48,000, where the failure rate was more than 8 percent.

The Administration's move to tighten up FHA's first-time home buyer programs ...while not doing the same to its various public housing home ownership initiatives, is myopic at best.

The economic model that Price Waterhouse used to predict mortgage claims demonstrated that a home buyer's decision to default on a mortgage will be determined largely by their perceptions of home equity and their desire or obligation to move. When real estate markets experience significant and sustained declines, the best financial option is often to walk away from the property. This choice will be made when the resale value of the home falls far enough below the market value of the remaining mortgage balance to outweigh the economic and non-economic costs of default.

Finally, it is frequently argued that, especially among lower income borrowers, default is caused by factors beyond the home owner's control, such as illness, divorce, or unemployment. According to the Price Waterhouse analysts, as long as borrowers have positive equity, they are more likely to sell their homes to recover that equity rather than default on their loans.

The Results of HUD's Public Housing Home Ownership Demonstration

Over a 51-month period (June 1985 through August 1989), the seventeen public housing authorities participating in the demonstration sold 320 public housing units, only a quarter of the more than 1300 units they had planned to sell.[10] Despite HUD's demonstration rule that units had to be sold to existing tenants, lack of effective demand among public housing tenants resulted in nearly one out of every four sales to non-resident households on public housing waiting lists.

Housing authorities encountered a variety of problems that affected their ability to carry out their home ownership programs at the scale and pace originally intended (or, in some cases, to carry them out at all). These overlapping problems, which had a particular impact on multi-family conversions, can be roughly divided into the following categories:

- Lack of effective leadership, including internal conflict within the local public housing authority (PHA) and/or the community over the goals of the public housing home ownership program;
- Poor program design and/or legal constraints concerning title to public housing and involuntary relocation;
- Adverse local market conditions, where public housing sales had to compete with the bargain sales of FHA foreclosed houses;
- Lack of replacement housing; and
- Inadequate tenant incomes.

Too little time has passed to determine how well the former public housing tenants have coped with the costs of home ownership. There is, however, some data on short-term affordability problems. To place these numbers in perspective, we should keep in mind that Price Waterhouse has found that about 9 percent of all FHA-insured, low down payment loans originated between 1975 and 1985 have already failed. The early evidence from the public housing home ownership demonstration indicates that failure rates will probably be in the same range. As of the end of August, 1989, five of the demonstration's twelve active sales programs had already reported a problem with late payments or more serious borrower delinquencies. Within the first 18 months of closing, between 10 and 15 percent of the buyers indicated that they were having problems meeting their housing costs. About 31 percent of all buyers indicated that their mortgage payments were causing a strain on their budgets, and 10 percent said they were already at least one month behind on their payments.

In one demonstration site with two public housing co-ops, one of the co-ops had a 20 percent delinquency rate. In the other, a third of all buyers had fallen behind in their housing payments within the first eighteen months of closing and had little hope of catching up.

Annual turnover in one of these co-ops was about 27 percent, while in the second it was a lower 7 percent. Virtually all of this turnover occurred without one market sale of a single co-op share taking place. Despite Jack Kemp's sentiment that "owning something changes behavior in ways that no amount of preaching middle-class values ever could," in at least one home ownership site, one in five low-income buyers have already walked away from their public housing co-op as if they were renters. This brings us back to the Price Waterhouse finding that even where the decision to move is caused by personal factors, default is most likely to occur when a borrower has no home equity.

In general, the typical single-family public housing buyer has a positive equity position in the property from day one. The buyer's equity, which equals the difference between the market price of the unit and the discounted sales price, cannot be immediately realized under the terms of the deferred payment, second mortgage that the housing authority holds. If buyers remain in their homes beyond the expiration of the HUD- and PHA-imposed resale restrictions, however, they can realize the full amount of their initial equity by selling or refinancing their property. If property values appreciate during their tenure, so much the better. For example, in buying their single-family public housing units at highly discounted prices, buyers in Baltimore received an average of $5,300 in initial locked-in equity. In Chicago they received about $17,000.

This is not the case in multi-family home ownership projects. In two out of the three multi-family conversions that actually closed in this program, sales prices were based largely on total rehab costs with the financing arrangements designed to enable the housing authority to eventually recover its capital costs. Rather than reflecting real equity that the buyer can eventually realize through maintenance of the unit and responsible participation in the governance of the co-op, the forgivable silent second mortgage held by the housing authority represents excess debt. It secures that portion of the rehab cost that the tenant buyers could not afford to amortize on a current basis. Since buyers have negative equity in the co-op from the outset, it is not surprising that buyers walk away from their investments because of unforeseen changes in their personal circumstances, the responsibility of self-governance, or mismanagement of the co-op.

Conclusions

In light of the findings of these two studies, low-income housing policies must pay more attention to expanding low-income housing opportunities. It is more cost effective to provide opportunities for higher-income public housing residents to move out of public housing into a home of their own than it is to sell off the public housing inventory. Rather than simply fighting the administration's privatization policies, more housing authorities should be actively pursuing their own home ownership initiatives that reward successful residents. In cases of public housing home ownership programs, families should be given a positive equity stake in their property from the beginning. Resale restrictions and prohibitions against "windfall" profits should be more lenient than those proposed by many housing advocates.

A public housing home ownership program should have its own source of rehabilitation capital that does not have to be fully repaid by residents when costs exceed market value. This source should be separate from existing rehabilitation programs so that the urgent need to revitalize the public housing stock will not be compromised by a sales program.

Providing buyers with post-sales financial assistance is necessary to any public housing sales program. Early experience with families who have bought units under the public housing home ownership demonstration suggests that even with deeply discounted prices, many families need continuing subsidies to keep their housing affordable. The Administration is therefore correct in proposing to make available housing vouchers to tenants who buy their public housing units.

Home ownership must be a large component of a broad-based, revitalized national low-income housing policy. It should not be the entire policy, however. Given the level of housing need in the country, successful rental programs for the very poor should not be cannibalized by any level of government in order to fund new home ownership initiatives.

Notes

1 Charles J. Delaney and Maury Seldin, "Real Estate Issues in the 21st Century: A Delphi Perspective", *Real Estate Issues*, V. 14, No. 2, Fall/Winter 1989.
2 The New York Times, March 12, 1989, pg. 1
3 Joint Center for Housing Studies, *The State of the Nation's Housing 1989*, Cambridge, Harvard University, 1989. Pg. 17.
4 Joint Center for Housing Studies, *The State of the Nation's Housing 1990*, Cambridge, Harvard University, 1990. Pg. 4.
5 Joint Center for Housing Studies, *The State of the Nation's Housing 1989*, Cambridge, Harvard University, 1989. Pg. 5.
6 Ibid., pg. 6.
7 Joint Center for Housing Studies, *The State of the Nation's Housing 1990*, Cambridge, Harvard University, 1990. Pg. 15.
8 Joint Center for Housing Studies, *The State of the Nation's Housing 1989*, Cambridge, Harvard University, 1989. Pg. 10.
9 General Accounting Office, *Public Housing: Planned Kenilworth-Parkside Sale Raises Issues for Future Transactions*, Washington, DC, December, 1989. Pg. 80.
10 William M. Rohe and Michael A. Stegman, *An Evaluation of the Public Housing Homeownership Demonstration*, U.S. Department of Housing and Urban Development, April, 1990.

Protecting Our Communities from Banking Mega-Mergers

Tom Schlesinger

The banking industry mega-mergers announced last July and August are unprecedented in size. Analysts say others will surely follow. Many of the same analysts reassure us that huge banking combinations and industry-wide consolidation are natural, inevitable, good for banking and good for the economy. The Bush Administration asserts that encouraging big banks to get bigger will level the financial industry's domestic playing field and enhance the global position of U.S. banks.

Rather than leveling the playing field, this bank-centered approach will only preserve its tilt. Underregulated firms, particularly giant financial companies, will continue playing a disruptive, lowest-common-denominator role at the fringe of the credit system. The bigger-is-better solution won't lay a glove on the underlying reasons the financial industry and lenders of all sizes flocked to ill-considered speculative investments over the past decade. The real culprits are regulatory inequality, weak supervision and decontrolled interest rates--not "too many banks."

There is little evidence that increased size will make U.S.-based banks more competitive in global markets--or that such a result might yield benefits in this country. For example, the proposed NationsBank merger will produce the largest bank in recent U.S. history to have virtually no international presence.

In addition to our skepticism about banking consolidation, the industry mega-mergers announced this summer raise three specific concerns: financial instability, economic dislocation, and concentration of economic power.

Financial Instability. These deals may well destabilize an already unstable industry, thereby increasing government's costs for bank failures, roiling financial markets and sapping public confidence. The performance of these mega-merger partners and the overall track record of large banks send ominous signals.

The primary causes of big-bank inefficiencies are not external factors or regulation. Several large banks have circumvented regulatory barriers to product and geographic expansion. The results often seem more impressive as legal stratagems than financial ventures. Given their experiences, many employees of big banks agree that their firms' inefficiencies result from the very internal conditions--such as excessive bureaucracy and rigidity, and perverse reward structures--that mega-mergers will magnify.

At worst, the current crop of mega-mergers may produce another First Republic- or Bank of New England-like meltdown. At best, these deals probably will produce sluggish institutions whose greatest area of synergy is nonperforming real estate loans and whose principal activity will be limping into line at the discount window.

According to a recent analysis in *Barron's*, five of the six banks involved in pending mega-mergers--Chemical, North Carolina National Bank (NCNB), C&S/Sovran, BankAmerica and Security Pacific--rank among the nine banks with the greatest commercial real estate exposure.[1] On average, commercial real estate loans equaled 120 percent of these five banks' year-end 1990 net worth. From first quarter 1990 to first quarter 1991, foreclosed property rose at an average rate of 113 percent for the five mega-merger partners. Foreclosed and problem loans averaged 41.1 percent of the five banks' net worth as of March 31.

Bad real estate lending isn't the only vice these banks share. They also followed the trend to risky leveraged buy-out (LBO) loans. At the end of 1990, all six of the

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mega-merger partners ranked among the top 20 banks in highly leveraged transactions (HLT) lending, with a combined $16.9 billion in HLT outstanding. That sum represents 28 percent of all HLT exposure for the 25 lenders who account for most of the banking industry's highly leveraged financing.[2]

These numbers say that bigger equals weaker, not better. Even more important, they suggest that big banks seeking to grow out of their problems have systematically misinvested depositors' money in unproductive ventures that add little to the nation's economic well-being. Why should we expect them to manage even larger portfolios with keener regard for the bottom line or America's economic health?

In an indirect sense, mega-mergers are destabilizing because they offer phony substitutes for the difficult, thoughtful changes that might actually reverse banking's fatal spiral. The longer we defer real reform of deposit insurance, regulatory inequalities and other structural problems, the deeper the industry will dig its own hole.

Economic Dislocation. Mega-mergers will generate a number of problems in the real economy above and beyond the effects of additional bailouts on public confidence, consumer buying power and the availability of public resources. Widespread unemployment, concentrated in cities that staked their development on financial industry growth, will be the most obvious consequence of mega-mergers. According to published reports, the Chemical-Manufacturers Hanover Trust (MHT) merger may result in at least 6,000 layoffs,[3] the Nationsbank merger in 9,000 layoffs[4] and the BankAmerica-Security Pacific merger in 20,000 layoffs.[5]

These layoffs have been heralded as a sign of belt-tightening efficiency. Yet they will disproportionately hit lower-paid workers, like the employees at NCNB Florida whose average salary and benefits declined from $17,940 in 1989 to $17,768 in 1990, according to Sheshunoff Information Services.[6] The real fat in bank overhead--CEO salaries, directors' perks and the like--will never be subjected to the indignity of a cholesterol test (see Table 1).

By reducing competition, mega-mergers will narrow the choices available to household and business users of banking services and raise their costs. Recent studies of commercial lending data by Federal Reserve economists confirm the connection between banking concentration and higher prices for bank consumers. In addition, mega-mergers probably will squeeze the supply of credit and other banking services to already underserved areas of the economy.

Concentration of Wealth. These mergers will result in excessive concentrations of economic power. They threaten to put a government seal of approval on the idea that fewer, rather than more, people should own and control our most basic economic resources. This past September, the Southern Finance Project released a study indicating that 1991's mega-mergers will have profoundly adverse effects on competition in local banking markets, particularly those in affected areas of the West and the

TABLE 1: COMPENSATION AND PERFORMANCE COMPARISONS FOR MAJOR MERGING BANKS

INSTITUTION CEO	CEO 1990	CEO 1989	AVERAGE EMPLOYMENT 1990	AVERAGE EMPLOYMENT 1989	CHANGE IN STOCK PRICE
Chemical NY			53,291	50,356	-64.0%
Walter Shipley	$738,167	$1,118,430			
Chemical NJ			33,713	32,160	
Texas Commerce-Houston			36,966	35,803	
Texas Commerce-Dallas			32,205	28,404	
Manufacturers Hanover			49,662	46,395	-36.2%
John McGillicuddy	$1,082,000	$1,680,323			
NCNB TX			26,528	28,524	-50.5%
Hugh McColl	$752,515	$1,200,000			
NCNB NC			31,343	31,018	
NCNB FL			17,768	17,940	
NCNB SC			20,880	20,286	
C&S/Sovran VA			31,199	30,086	n.a.
Bennett Brown	$880,273	$978,081			
C&S/Sovran GA			29,421	28,117	
C&S/Sovran FL			26,425	25,594	
C&S/Sovran TN			29,114	21,288	
C&S/Sovran MD			32,874	31,394	
C&S/Sovran SC			22,427	21,389	
BankAmerica CA			38,189	36,898	-0.9%
Richard Rosenberg	$1,600,000	$1,250,000			
Seafirst			34,054	32,265	
Security Pacific CA			37,490	36,151	-49.2%
Robert Smith	$789,600	$1,027,900			
Security Pacific WA			34,926	33,645	
Security Pacific AZ			40,352	38,507	
Security Pacific OR			34,887	32,193	

CEO 1990/1989: Total compensation includes salary, bonus, deferred compensation and other forms of cash-equivalent compensation.
AVERAGE EMPLOYMENT 1990/1989: Average salary and benefits per employee at affiliate banks.
CHANGE IN STOCK PRICE: Percent change in stock price from year-end 1989 to year-end 1990.

SOURCES: SNL Executive Compensation Review: 1991; Sheshunoff 1000 Largest U.S. Banks, 1991 and 1990.

Southeast.[7] The study shows:

- According to U.S. Justice Department guidelines, the BankAmerica and Nationsbank deals would produce "highly concentrated" conditions in 81 of the 99 counties in Arizona, California, South Carolina and Washington where the merger partners currently operate competing offices.
- In a quarter of those counties, post-merger concentration levels would rise to more than double the statistical threshold that signals adverse effects on competition and triggers antitrust action.
- Despite a record of generally lax antitrust enforcement during the 1980s, the Justice Department challenged a number of banking mergers over local concentration levels far lower than those threatened by 1991's mega-mergers. In 42 of the 99 affected counties in Arizona, California, South Carolina and Washington, post-merger concentration levels would surpass the levels that generated a recent federal antitrust challenge to Fleet/Norstar's FDIC-assisted takeover of Maine National Bank.
- Bargain-basement government sales of failed banks and thrifts to NCNB, BankAmerica and Security Pacific will compound the anticompetitive effects of 1991's mega-mergers. The report terms the BofA-SecPac deal "the world's largest RTC trophy case," since the bailout agency has furnished the two banks with $24.6 billion in banking resources --74 percent of all deposits sold by Resolution Trust Company (RTC) in Western states. The extremely favorable terms of those deals put BofA-SecPac's rivals at a double disadvantage.
- After a merger, NCNB and Bank of America would dominate non-local banking markets for medium-sized business borrowers in South Carolina and parts

A Proposal for Public Purpose Banking

This outline for public purpose banks should be considered as a broad concept, recognizing that many details remain to be debated and refined by citizens, policy makers and public-spirited lenders whose experiences provide models for such a system. The purpose for such a system is to restore the widespread ownership of financial intermediaries while investing in a broad spectrum of resources needed to enhance the national economic performance and revitalize communities. A public purpose banking system should be built incrementally by expanding the existing. but tiny, infrastructure, of public-spirited lenders through a) the application of tough antitrust standards to banking industry consolidation; and b) the resolution of bank and thrift failures.

Ownership

Public purpose banks will be mutually owned by their depositors. The principal means for defining the banks' ownership group will be the communities they are chartered to serve. By complying with public purpose standards for governance, lending and supervision, other traditional and non-traditional lenders (community development loan funds and credit unions, stockholder-owned development banks and commercial banks, hybrid intermediaries, etc.) also could operate as public purpose banks.

Governance

Public purpose banks should be democratically governed by their owners, who would be responsible for selecting a majority of each institution's directors. Accountability mechanisms linking management, directors and owners could include: regular, detailed disclosure of financial information; annual independent audits; votes by owners on major policy initiatives by the banks; and free access by owners to the vote.

In order to prevent effective control of the institution passing to a small number of affluent or powerful members (as has happened at Farm Credit System Production Credit Associations (PCAs) and many mutually-owned depositories), the board should maintain aggressive member education and involvement programs.

Capitalization

In order to gain the solid equity base needed for effective intermediation, public purpose banks should be able to obtain capital through the following means:

- Equity contributions from the Tier 1 capital of megamerging Bank Holding Companies (BHCs) that are proportionate to the divested branches' percentage of the merging institutions' total resources;
- Voluntary investments by state governments, local governments and pension funds in a special class of restricted-voting shares;
- A portion of receipts from asset appreciation fees levied on investors who resell RTC and FDIC properties within five years of purchasing them. One precedent for this fee is the net recapture agreement provision of the 1987 Agricultural Credit Act, which exposes Farm Home Administration borrowers to an appreciation tax on farm assets.
- Tax-advantaged investments by individuals in a limited class of voting shares.

Sources of Funds

Public purpose banks should be able to access funds through the following mechanisms:

Favorable access to the deposits of

of the West Coast. Such firms already rely on an narrow universe of competitors for their primary banking relationships.

These research findings raise a number of practical questions for state and federal antitrust enforcers. They also raise broader questions about who will control the nation's most vital economic functions--money creation, the payments system and financial intermediation. The Supreme Court's landmark *Philadelphia National Bank* decision addressed those broad questions with blunt eloquence. In 1963, the Court wrote:

> The fact that banking is a highly regulated industry critical to the Nation's welfare makes the play of competition not less important but more so. If the businessman is denied credit because his banking alternatives have been eliminated by mergers, the whole edifice of an entrepreneurial system is threatened; if the costs of banking services and credit are allowed to become excessive by the absence of competitive pressures, virtually all costs in our credit economy will be affected; and unless competition is allowed to fulfill its role as an economic regulator in the banking industry, the result may well be even more government regulation. It is surely the case that competition is our fundamental national economic policy, offering as it does the only alternative to the cartelization or governmental regimentation of large portions of the economy.

Recommendations for Change

Government should take the folowing steps to respond to banking mega-mergers and the problems of concentration, economic dislocation and financial instability associated with them.

1. The standards used by federal financial regulators

megamerging and failed institutions. Specifically, receiving the deposits of branches divested by mega-merger partners in order to comply with antitrust standards; receiving, on a first option basis, deposits of insolvent institutions resolved by RTC and FDIC in insured deposit transfers. Public purpose banks also should receive preferential access to deposit franchises resolved by RTC and FDIC in purchase and assumption deals.

Discounted deposit insurance premiums. Public purpose banks should pay premiums at 80 percent of the lowest prevailing assessment rate for other insured depositories. For example, if the lowest assessment paid by banks, thrifts and credit unions to the FDIC and NCUSIF were 20 basis points, public purpose banks would be assessed 16 basis points.

The discount would give public purpose banks a structural advantage similar to the low-cost funding that an earlier type of specialized lender (S&Ls) received via interest rate controls. Since we believe it is necessary to reform the current deposit insurance assessment, preference for public purpose banks ultimately should be replaced by rate mechanisms built into a system of flexibility recontrolled rates.

Public Deposits. A federal requirement that public bodies (e.g., local governments, school boards, port authorities, etc.) and Pension Benefit Guarantee Corporation-backed pension funds place a designated small percentage of their total transaction deposits and a designated small percentage of their total non-transaction accounts with local public purpose banks.

Lending Mandate

Portfolio requirements for public purpose banks should be characterized by flexibility and diversification. They must reflect community economic needs and national priorities.

- Investments in housing, community and industrial development, health and child care, agriculture and environmental protection should constitute no less than 80 percent of the banks' loans (Qualified Public Lender test).
- Public purpose banks should maintain an annual loan-to-asset ratio that exceeds by some fixed percentage the loan-to-asset ratio (averaged over three years) for Bank Insurance Fund-insured institutions with less than one billion dollars in assets.
- Loans should be made within 100 miles of the bank's headquarters in MSA counties and within a reasonable (perhaps multi-county) service area surrounding the bank's headquarters in non-MSA counties. Some exemptions may be made on a case-by-case basis for syndicating or participating in non-local ventures of special public interest.
- A reasonable portion of bank loans (the exact portion to be determined annually by the chartering agency) should involve the banks in state and federal credit programs consistent with their overall lending mission (e.g., Small Business Administration, FmHA, etc.).
- Loans to a single borrower should be restricted. Off-balance-sheet activities and loans to officers, directors, and their related parties should be prohibited or severely restricted.
- Banks should have access to a public purpose secondary market established through their chartering agency.
- Banks should provide their borrowers debt mediation and restructuring services financed by retained earnings and a "check off" system.

to evaluate proposed bank mergers--especially large mergers that exceed a specified size threshold--should be clarified, codified and made public. The vague, shifting, subjective and unwritten guidelines currently used for merger reviews should be replaced by explicit written standards that:

- Spell out the types of product and geographic markets to be analyzed;
- Quantify the benchmarks by which competitive effects are evaluated;
- Fully factor in any existing competitive advantages that the government has conferred on the applicants;
- Eliminate the "convenience and needs" defense of banking mergers due to its slippery meaning and history of usage.
- Consider the effects of mergers on customers such as middle-market businesses that use non-local banking markets and are crucial to the health of local economies.

These measures would reduce the discretion and enhance the public disclosure of regulatory activity. Like complementary proposals for "early intervention" in failing banks and restricting use of the Fed's discount window, such initiatives would make financial regulation more transparent, more consistent and more clearly in the public interest.

2. Restrictions should be placed on the portion of total deposits and IPC deposits that can be controlled by any single institution on a state, county and Metropolitan Statistical Area basis. If necessary, the federal benchmark should preempt more liberal state standards.

3. Banking regulators should direct government and non-governmental organizations in affected areas to conduct comprehensive social and economic impact studies prior to approving bank mergers involving institutions whose parent companies hold combined assets exceeding $50 billion. If these studies predict substantial social or economic dislocation, regulatory approval should be conditioned on the implementation of a comprehensive mitigation program, funded by a merger tax on the merging institutions.

The principal components of merger-mitigation programs should include (but not be limited to) the following elements:

- Strict compliance with the Worker Adjustment and

(continued from page 9)

Such services should be available to distressed borrowers whose income falls within a reasonable standard (e.g., 120 percent) of local median income and whose loan is part of the bank's Qualified Public Lender portfolio.

Regulation and Supervision

A federal agency, the Office of Public Banks, should be created to charter and promote the expansion of public purpose banks. Like the Federal Reserve and the FHLB systems, the Office should maintain reserves for and provide backup liquidity to public purpose banks. The Office could be established on a national, regional or state basis. The Office should have no regulatory or insurance functions.

A completely separate (existing or new) federal agency should serve as primary regulator and insurer of public purpose banks, performing examination and supervision functions. Only a federal charter should be available for public purpose banks; however, existing state- or federally-charted institutions should be allowed to convert to a public purpose charter if they meet the appropriate ownership, governance, capitalization, portfolio and management tests.

In addition to meeting the reserve requirements of the Office of Public Banks, public purpose institutions should meet soundness standards comparable to those demanded of other insured financial institutions. However, the primary regulator should determine and enforce separate risk-weighted capital and reserve standards for public purpose banks. Supervision also should take into account the case of public purpose banks that choose to operate on a not-for-profit basis. Public purpose banks should operate with a state and federal tax exemption. Failure to comply with lending standards should result in the loss of the exemption.

Management

Public purpose banks should present a qualified management team and sound management plan in order to receive a charter from the Office of Public Banks. To help stimulate and sustain the infusion of managerial and technical skills needed for public purpose banking success:

- The Office of Public Banks should maintain an active technical assistance division, dedicated to the support and continuing education of start-up management teams. The division should be funded by mega-merger taxes and a fee on clearinghouse transactions.
- Matching state-federal EDWAA funds should be used to train and place in public purpose banking jobs a corps of employees who have been laid off as a result of banking mega-mergers. The "Lender Corps" notion also could be expanded to include the recruitment and placement of retired and other unemployed persons with banking and/or management skills.

Retraining Notification (WARN) Act's 60-day notice provision.

- A mandatory 60-day consultation period, triggered by the WARN notice, in which representatives of employees, management and government negotiate alternatives to a closing or layoff.
- Establishment of adjustment committees based on the Canadian model to oversee retraining, education and relocation programs for laid-off bank employees. The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) provides resources for these joint labor-management committees to be staffed by an independent third party. The committees are authorized to survey dislocated workers for outplacement; screen, hire and fire adjustment service providers; and monitor the re-employment process. For instance, the United Food and Commercial Workers have proposed a model assistance center for dislocated Security Pacific and Seafirst employees.
- Use of EDWAA funds for alternative ownership prefeasibility studies that draw up detailed management plans for converting divested branches into public purpose banks.
- A "Lender Corps" program, subsidized by EDWAA discretionary funds and a merger tax, that retrains and places laid-off bank employees in staff positions at these public purpose banks. These employees would help fill the managerial and technical gaps that nag existing community lenders.

4. Branches divested by mega-merger partners in order to comply with antitrust standards should be converted to mutually-owned "public purpose banks" with a lending mission that serve community needs and national economic priorities. Branches and franchises in RTC and FDIC conservatorship also should be eligible for conversion to public purpose banks (see sidebar).

Such banks could be given or sold on a preferential basis to existing development banks, community development credit unions, community development loan funds or similar intermediaries. Another possibility is that these banks be chartered separately on the credit union model, with the community defined as the affinity group. State and local government units could also invest in such banks as could pension funds. Portfolio requirements would reflect broad national investment needs as well as diversification and other prudent standards.

The principle behind public purpose banking is simple. If the government is going to promote or condone a dramatic concentration in ownership and control of banking resources, it should simultaneously support a second tier of financial institutions better attuned to the nation's credit needs and the American tradition of widespread economic ownership.

The two-tiered approach is a long-standing reality in some countries, including nations whose ostensibly centralized banking systems are relentlessly cited as the wave of the future by bank consolidation advocates in the U.S. For example, the German banking system is best known for its handful of mammoth universal banks. But the country also hosts, and promotes through public policy, a flourishing tier of smaller financial intermediaries that includes thousands of cooperative banks, savings banks, mortgage banks and postal savings offices. Even though these smaller institutions have undergone a merger boom in recent years, Germany still has more banking institutions per capita than the U.S. has banks and thrifts.

5. All financial firms should be subject to uniform licensing and regulation and should meet a modicum of public obligations in return for their license. The S&L experience demonstrates the foolishness of leveling the playing field by lowering it to a less-regulated common denominator. In order to stabilize the financial system and achieve real regulatory equality, comparable soundness requirements (capital and reserve standards, disclosure, etc.) and prohibitions against conflict of interest and unfair competition should be applied to any entity that: directly accepts funds from the public for investment; makes loans to the public using funds other than its own equity capital and retained earnings; or sells loans to financial institutions or investors.

Regulatory equality is not an answer to mega-mergers *per se*. Rather, it represents an alternative to the banking industry's broad program of consolidation and decontrol. It may or may not imply "more" regulation; it would certainly provide smarter regulation. As the body count mounts in the financial industry, the nation needs to debate and implement real reform, rather than permitting mega-mergers to delay the banking system's day of reckoning and make that day vastly more expensive to taxpayers.

Notes

[1] Maggie Mahar, "The Great Collapse: Commercial Real Estate is on the Skids across the Nation", *Barron's*, July 22, 1991.
[2] American Banker, *Ranking the Banks* 1991.
[3] *Wall Street Journal*, pg. 1, July 16, 1991.
[4] Robert Trigaux, "Are Bigger Banks Better Banks?" *Public Citizen*, Sept/Oct 1991.
[5] *Los Angeles Times*, pg. 1, Business Section, August 13, 1991.
[6] SNL Executive Compensation Review: 1991; Sheshunoff 1000 Largest U.S. Banks, 1991 and 1990.
[7] Southern Finance Project, "The Bigger They Come," September 1991.

Preventing Strip Commercial Development: A Pilot Study in Wake County, North Carolina

Paul M. Kron

Visual experiences along major thoroughfares create some of the first, strongest and most lasting impressions of a community. Residents and visitors form opinions about the quality of life of an area based on what they see from the roadway. A positive image may affect people's choices about where to work, live, locate businesses, retire, or visit. Therefore, the quality of roadside development is a key factor in determining not only people's perception of an area, but ultimately, the economic well-being of a community.

In December 1989, the Wake County Board of Commissioners expressed concern about strip development along major thoroughfares throughout the county. The board asked the planning staff to explore ways to encourage appropriate development along various types of thoroughfares, to maintain the carrying capacity of roadways and the visual quality of their surrounding landscape, and to accommodate the use of public transit. The board placed special emphasis on the issue of eliminating the county's Highway District zoning classification, which allows a very broad range of land uses.

In response to the board's concerns, the Wake County Planning Department began a pilot study of the NC 55 and US 64 West highway corridors in western Wake County. These rural, two-lane highways were chosen in anticipation of increased development pressure due to the widening of US 64 West and the proposed alignment of the Northern Wake Expressway (west of the US 64-NC 55 intersection).

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What is Strip Development?

Strip development is characterized by congested roadway corridors lined with a variety of car-oriented commercial land uses such as gas stations, convenience stores and fast-food restaurants. These corridors usually lack features which reflect the distinctive character of a community and often convey a cluttered, repetitive image, indistinguishable from other strips. Inappropriate land uses, insufficient building setbacks and landscape buffers, large expanses of surface parking, and visually intrusive signs are some of the undesirable characteristics which shape the negative image of strip development.

In addition to its unappealing visual quality, strip development adversely affects the function of roadways. The primary purpose of major thoroughfares is to safely carry through traffic. However, poorly planned roadside development with frequent driveways and turning movements conflicts with this function, resulting in congestion and hazardous traffic conditions. Because major thoroughfares are substantial public investments, it is in everyone's best interest to keep them safe and uncongested.

How Does Strip Development Occur?

Major thoroughfare corridors generally evolve from rural highway corridors into continuous commercial strips, following five phases of development:

The Pastoral Highway: Two-lane country roads lined by agricultural uses which offer pastoral landscapes, rural scenery and undisturbed vegetation. Traffic volumes are generally well below the road's capacity, and access points are few and far between.

Convenience Stores and the Lonesome Billboard: The rural landscape remains intact, but is dotted with billboards and an occasional convenience store, gas station, or restaurant.

Public Improvements and Speculation: Roadway improvements improve access to adjacent properties, while the construction of water and sewer lines raise land values and increase interest in developing these corridors. Commercial development at this stage generally occurs in small increments.

Scattered Strip Development: Numerous parcels of agricultural and residential land fronting the highway have been converted to commercial uses. Large shopping plazas or shopping centers begin to appear. Most of the small out-parcels of remaining vacant land are for sale for commercial uses. The highway's function as a through-corridor has been diminished as traffic volume and the number of turns has significantly increased. Numerous signs and other devices compete for the attention of motorists.

Continuous Strip Development: Commercial land uses occupy virtually all land fronting the highway. Numerous signs divert the driver's attention from the roadway. Numerous curb and median cuts, turning movements, and vehicles slow traffic and create hazards. Traffic volumes exceed the carrying capacity of the roadway, requiring construction of additional travel lanes.

As development along roadway corridors progresses through various phases of strip development, solutions for controlling land use, the visual character of development and access onto highways become increasingly limited and difficult to implement. Therefore, it is essential to achieve these objectives in the earliest phases of development.

The Pilot Study Area

The pilot study area includes land within a 1,500- to 2,000-foot wide corridor along NC 55 and US Highway 64 West in western Wake County. Most of the land along both highways was zoned Highway District. Much of the study area falls within Wake County's designated Perimunicipal Planning Area, where urban development is expected to occur within the next 10 to 15 years. All of the US Highway 64 West corridor located outside the Perimunicipal Planning Area is within the Jordan Lake water supply watershed.

Development within the Pilot Study Area

The planning department gathered information on existing land uses, zoning, lot configuration, and visual resources. This information was used to determine each corridor's phase of development and to select the most appropriate techniques for preventing strip development and mitigating its negative effects.

Both highway corridors appear to be in the first or second phase of the five phases of strip development. The primary existing land uses within the pilot study area are agricultural, residential and vacant (cleared farmland which is not presently being cultivated). Both highways are rural in character; however, nearly three-quarters of the lots directly adjacent to either highway are zoned Highway District, which allows a variety of urban uses with a special use permit. In addition, over half the lots adjacent to each highway have frontage of 400 feet or more, allowing them to meet access spacing requirements applicable to non-residential uses within Highway District zoning. If these larger sized lots were subdivided, the county would find it increasingly difficult to coordinate development plans to control access and visual intrusions along these highways.

Vistas, water bodies, natural vegetation, and an absence of signs define the visual character of these highway corridors. Views of sweeping pastoral scenery with rolling hills, cultivated fields, farm-related structures, farm ponds, and mature stands of hardwoods and pines abound.

The visual character of both corridors remains intact, with the exception of a few non-residential uses visible from the roadway. There is only one billboard in the pilot study area. About half of the land along both highways features scenic vistas of the countryside, while the remaining land is wooded.

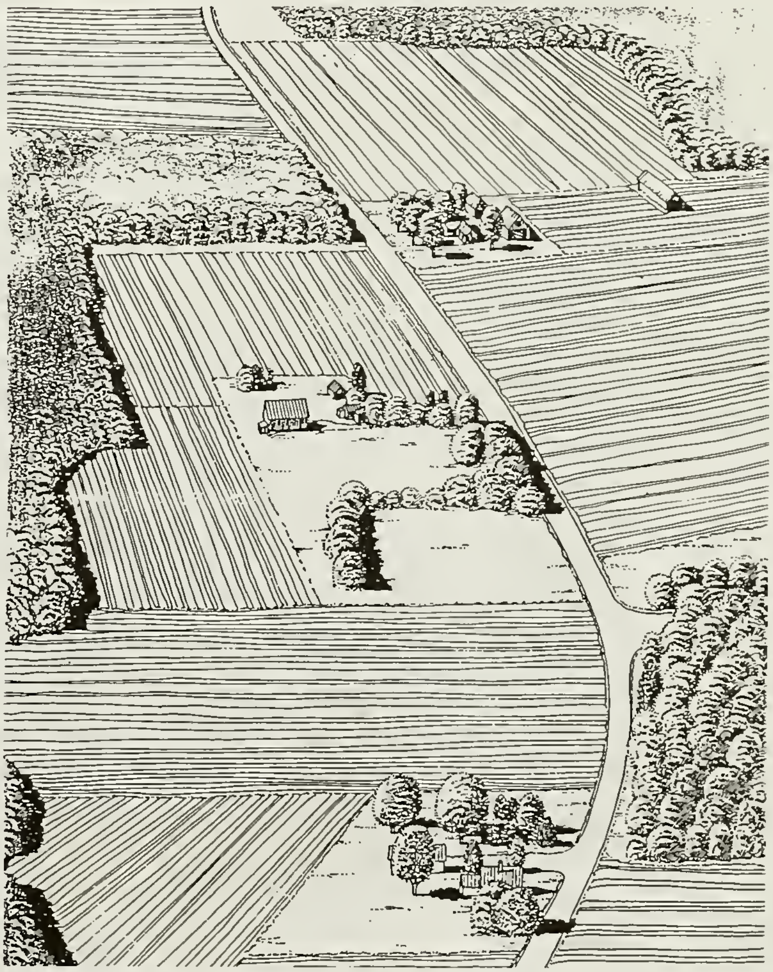

Figure A. Aerial View Before Development

Alternatives to Strip Development

To help the board envision how planning and regulatory tools could be used to prevent strip development, the pilot study used the following illustrations from *Dealing With Change in the Connecticut River Valley* (published by the Lincoln Institute of Land Policy and the Environmental Law Foundation in 1989).

Figure A illustrates a typical two lane rural highway, similar to NC 55 and US 64 West. Land within 400 feet of the roadway is zoned highway commercial and permits a variety of non-residential roadside uses. Land adjacent to this commercial corridor is zoned for low-density, single-family residential use.

Figure B illustrates the typical pattern of development resulting from this conventional zoning approach. Each commercial use has been allowed direct access from the highway and separate signs. Parking is provided in front of the buildings, with little landscaping to screen structures or parking from the roadway or adjacent uses. Ingress and egress points provide local access, but conflict with faster moving through-traffic. Residential land behind the commercial corridor has been cleared of trees and retains little of its existing visual character.

Figure C represents an alternative pattern of development. The same types of land uses are permitted and the overall density is maintained, but the area's visual quality remains intact. This is accomplished by controlling land uses and signs, clustering buildings, retaining and using existing vegetative buffers, and using shared access points. Access is shared among clusters of well-screened commercial buildings, providing spacious vistas for passing motorists and retaining the free flow of through-traffic. Single-family homes are also clustered and screened. The overall design is sensitive to the area's existing landscape and allows farmers to supplement their income by selling off a portion of their property while retaining a larger portion for agricultural uses. This approach may be particularly useful along corridors outside of the Perimunicipal Planning Areas. The clustering of uses within these municipal transition areas would also provide more efficient use of public services such as water, sewer and transit. The clustering of non-residential developments may also provide a more pleasant pedestrian experience than strip commercial development.

Recommendations and Actions

The pilot study envisions adequate non-residential development in appropriate locations along attractive and uncluttered thoroughfares which accommodate safe and convenient travel. The study calls for control of land uses, control of the visual character of new development, and control of direct access onto thoroughfares. In February 1991, the Wake County Board of Commissioners endorsed these recommendations and requested the Planning Department to initiate the following actions:

Control Of Land Uses

1. Use the Wake County General Development Plan to guide land use decisions along the pilot study corridors. For the corridor segments within the Cary and Apex Perimunicipal Planning Areas, use the land use designations of the detailed joint land use plans to guide rezoning and special use permit decisions. Joint plans for the two towns were incorporated into the General Development Plan in December 1990.

2. Concentrate commercial land uses within the activity

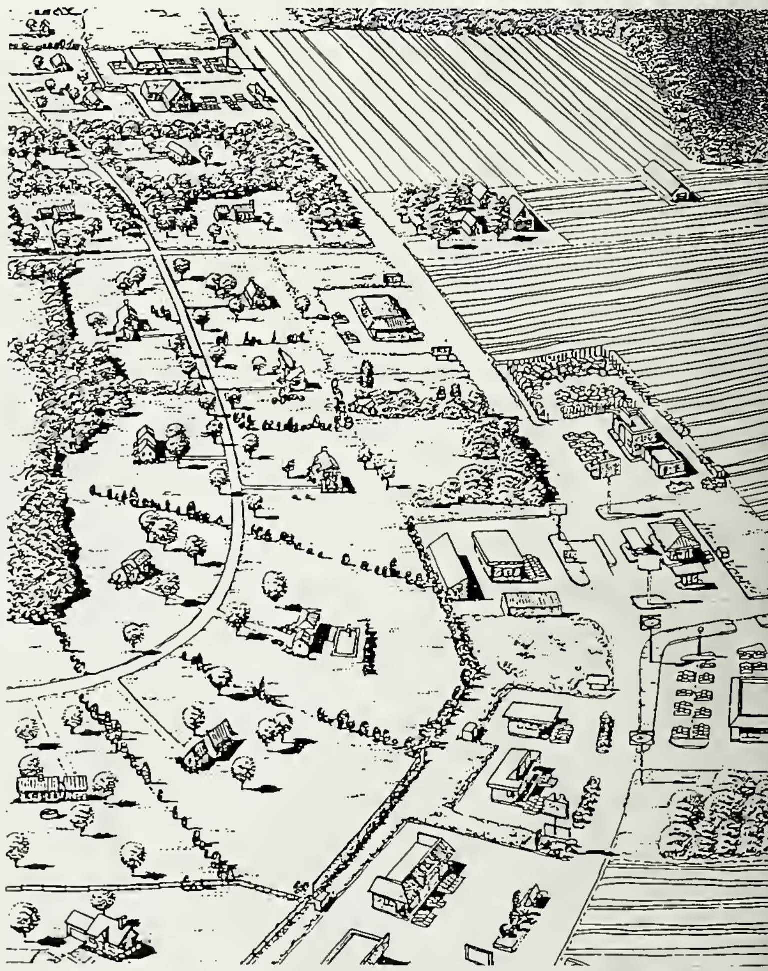

Figure B. Aerial View After Conventional Development

nodes designated on the joint plans.

3. Redefine non-residential land uses allowed within Highway District zoning to coincide with the land use designations of the joint plans.

4. Eliminate Highway District zoning within the non-Perimunicipal Planning Area portion of the pilot study, and rezone this area to the appropriate watershed zoning districts (R-40W or R-80W).

Control Of The Visual Character Of Development

1. Establish or refine requirements for planting landscape buffers, retaining existing vegetation, maintaining minimum building setbacks, and orienting buildings and parking areas away from thoroughfares and toward internal collector roads. Require close adherence to appropriate county regulations and design guidelines when considering requests for rezonings, special use permits, driveways, and median cuts.

2. Encourage cluster development through the site design and review process.

3. Prohibit or severely restrict signs and billboards along major thoroughfares.

Control of Direct Access Onto Major Thoroughfares

1. Limit direct access onto thoroughfares to coincide with key intersections with major collector roads and with appropriately designed median cuts. Use internal collector roads to provide adequate access for future development.

2. Work with the North Carolina Department of Transportation to ensure that median cuts are limited to appropriate locations.

3. Accommodate the use of public transit through the site design and review process.

Progress Report

In August 1991, the Wake County Board of Commissioners implemented the rezoning of all property within the US Highway 64 West corridor and outside of the Apex Perimunicipal Planning Area from Highway District to low-density residential water supply watershed districts. Parcels were rezoned to Residential-40W in the non-critical portion of the watershed (40,000 square foot minimum lot size) and Residential-80W in the critical portion of the watershed (80,000 square foot minimum lot size).

The two highways addressed in the pilot study are representative of a dozen thoroughfares in the county with extensive Highway District zoning. However, the roadway cross-sections, existing land use patterns, and visual characteristics of each thoroughfare corridor may be quite different. The Wake County Planning Department intends to replicate this study to determine for each corridor, the most appropriate strategy for addressing concerns about Highway District zoning and strip commercial development.

The planning department is currently working with several municipalities to prepare joint land use plans that include other major thoroughfare corridors in the county. Once the joint plans are approved, department staff will begin preparing rezoning proposals for these corridors.

The remaining actions recommended by the pilot study and endorsed by the board will be addressed as part of the planning department's current work program, which includes preparing a comprehensive plan and rewriting the county's zoning and subdivision regulations.

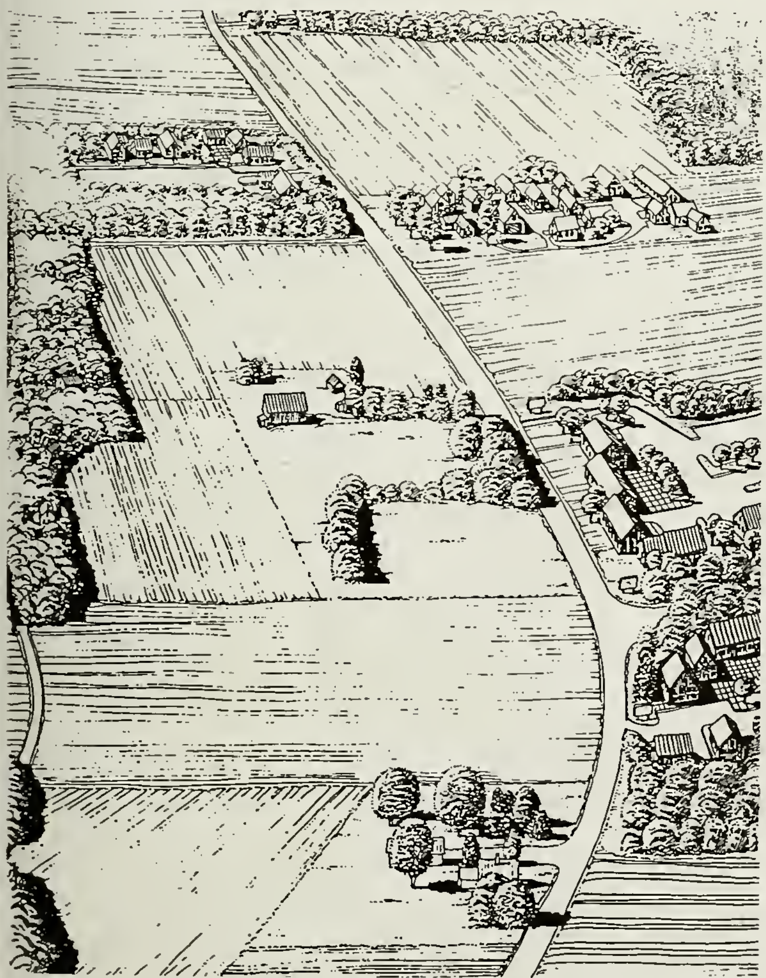

Figure C. Aerial View After Creative Cluster Development

Self-Help Development Bank: Economic Development Financing in North Carolina

Robert Schall

Access to credit has long been considered a key component of successful economic development. Government policy and programs have consistently sought innovative financing tools to foster business expansion, job creation, service provision, and income generation. Development banking organizations have been created throughout the United States and Third World, offering alternative financing solutions to make credit more accessible to all segments of society. In North Carolina, the Center for Community Self-Help, Self-Help Ventures Fund and Self-Help Credit Union (collectively known as Self-Help) constitute the nation's first statewide private-sector development bank.

U.S. development banking organizations grew out of the experience of government and community development corporation business development loan funds. Begun in the 1960s and 1970s, these were generally federally funded community- or region-based loan funds, focusing on job creation and service delivery in economically distressed areas. They usually operated independently of banks or other financial institutions, and often provided low-interest loans to newly created small businesses.

Private development banking in the U.S. began in 1978 with the creation of the South Shore Bank in Chicago. Reflecting the shift in federal policy and programs, development banks differed from earlier loan funds. They were private organizations, received little or no public funding, and involved a central "bank" with several affiliate corporations pursuing related development activities. Today, development banks have several common features. First, a federally-insured depository institution provides a sizable asset base and a broad range of development loans for housing and business development projects. Other non-regulated affiliates provide venture capital, higher-risk debt, technical assistance, advocacy, real estate development, job training, or other services that complement economic development finance. Development lenders differ from conventional banks in three major ways:

- they lend to non-traditional borrowers, economically disadvantaged groups and depressed regions;
- they forge partnerships between the public and private sectors by linking public economic development programs with private lenders and community organizations; and
- they combine financial assistance with technical assistance to further development.

Self-Help's Development Bank Genesis

The Center for Community Self-Help in Durham, North Carolina began in 1980, in the wake of one of the worst recessions in North Carolina history. Initially, it provided only technical and managerial assistance to struggling employee-owned companies. After four years of trying to raise capital for these projects, it was clear that a source of credit was needed as well. In response, the Self-Help Credit Union and the Self-Help Ventures Fund were created. These two institutions were launched in 1984 with $77 raised at a bake sale and now have combined assets exceeding $36 million. Self-Help has opened small field offices in Charlotte and Asheville and plans to open another in the eastern part of North Carolina in 1992.

The structure of Self-Help's institutions and services is similar to that of other development banks. The parent corporation for Self-Help is the Center for Community Self-Help, a non-profit corporation that provides technical assistance and advocates for changes in development policy and programs. The Self-Help

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Robert Schall has been President of Self-Help Ventures Fund since its creation. He is a 1978 graduate of the UNC Department of City and Regional Planning.

Credit Union is a federally-insured, state-chartered credit union that uses interest-bearing savings accounts (money markets, IRAs and CDs) to build a base for lending. The Credit Union provides a variety of commercial loans and home mortgages to disadvantaged constituencies. The Self-Help Ventures Fund is a non-profit corporation which obtains capital through low-interest loans and grants from foundations, religious organizations and private corporations. The Ventures Fund provides the highest-risk commercial financing at Self-Help and has begun making a few small real estate investments as well.

Self-Help's development strategy is based on the belief that ownership is a key motivation for people to improve their economic position. Self-Help therefore makes loans to disadvantaged communities and individuals to buy homes and build businesses. While many other development groups focus on job creation, Self-Help concentrates on increasing the wealth of individuals and communities. For example, the per capita income of white individuals in the U.S. is roughly twice that of black individuals. However, the measure of wealth (net worth) of white families is ten times greater than the wealth of black families. Lack of wealth can prevent individuals from improving, or even maintaining, their standard of living. Our society places great value on the ownership of property and much of our legal system is based on property rights. The dream of owning a home or small business is widely shared in the U.S. But just as important, Self-Help seeks to address the enormous disparities in the distribution of wealth in our society.

Wealth, or the ownership of personal assets without debt, gives families a financial base for additional economic or educational investment. Families need a certain level of net worth to send their children to college, buy or maintain a home, or start and expand a small business. The principal reason Self-Help expanded into mortgage lending is to counteract the lack of home equity among minority entrepreneurs. Minority businesses are at a disadvantage in raising funds because borrowing against home equity is the primary source of capital for small businesses. The establishment of a business or the purchase of a home provides long-term benefits for individuals and communities. Local ownership of businesses, particularly in rural communities, provides a means for establishing and maintaining a stable economic base. Self-Help uses mortgages and commercial loans to help disadvantaged groups or distressed communities build ownership through debt. As borrowers repay their debt, personal and community wealth increases.

Self-Help's constituency reflects North Carolina's unique economic needs. It provides loans to small businesses owned by minorities and women; to businesses located in depressed rural areas; and to cooperative, employee-owned and non-profit enterprises that provide a wider base of ownership within their communities. In addition, low- and moderate-income families can obtain mortgages to purchase homes. In 1991, Self-Help will provide over $10 million in development financing.

Balancing Development Objectives and Financial Viability

Self-Help and other development lenders work to expand the limits of lending risk without going bankrupt. Self-Help faces unusually high costs compared with conventional banks because it makes loans to marginal businesses with inexperienced management and to home buyers with poor credit histories and less cash for down payments or repairs. Unlike conventional lenders, Self-Help faces costs associated with the development and possible failure of new programs. Self-Help has devised a corporate financial/marketing strategy that recognizes the inherent costs and constraints of development banking. It uses three approaches to offset the higher costs of making risky loans.

External Subsidy. Self-Help seeks continuous, reliable sources of subsidy to support new program development, technical assistance and advocacy. Subsidies take the form of direct grants and donations for operations and loan loss reserves, low-cost loan capital (i.e., funds borrowed by Self-Help at low interest and then relent to borrowers) which supports higher risk loans, and the provision of *pro bono* services by outside organizations. Self-Help also uses grants and donations for a surrogate "endowment" which is never put at risk. Earnings from this endowment support additional costs associated with development lending, and to a limited extent, replace direct grants.

Lending In Market Gaps. Self-Help pursues markets that conventional lenders perceive as unprofitable. Its development targets are chosen primarily on the assumption that there are market gaps in certain commercial and mortgage markets that can be served without assuming enormously high costs. For example, Self-Help targets cooperative, non-profit, minority and women-owned firms as potentially profitable but underserved markets. Further, Self-Help's NC HOME affordable mortgage uses an innovative structure (a more flexible, low down payment mortgage sold to Fannie Mae) to serve low-income first-time home buyers who would otherwise not receive financing.

Although economic development literature frequently advocates this approach, in practice Self-Help has found that such niches are not always as profitable or extensive as expected. For example, an apparent market gap in rural commercial lending often reflects a lack of local markets and business management talent in these areas. Marketing and distribution costs are often higher because businesses are dispersed, and the cost of identifying lending opportunities is higher for lenders. New credit gaps arise constantly as industries change in response to shifts in technology and international exchange rates. Local markets change as a result of governmental policies, demographic changes and industry developments.

Market Displacement. Self-Help has also explored making lower-risk, profitable loans in certain commercial or mortgage markets that would usually be made, in whole or in part, by conventional lenders. By combining these conventional-risk loans with higher-risk development loans, the overall portfolio is less costly to manage.

There are two approaches to market displacement lending. One is for development banks to originate conventional, non-development loans. This method making loans that maximize return and minimize risk without consideration of development targets. For example, South Shore Bank in Chicago has used this approach to establish a foothold in conventional hospital leasing and in the financing of McDonalds' franchises. Self-Help has not used this approach, partly because of geographic limitations, and partly because of its success using other approaches.

The method most often used at Self-Help is to participate fully in loans where a development lender would typically take only a subordinate position. In development banking, commercial loan packages are usually split into a fully secured senior loan taken by a conventional lender and an unsecured subordinate loan taken by a development lender. At Self-Help, the entire loan package originates in-house, with the Self-Help Credit Union handling the less risky portion and the Self-Help Ventures Fund taking on the subordinate, more risky, piece. Coordination between the two sister institutions reduces overall risk. Securing each loan with all business assets allows for more flexibility in foreclosure and reduces loan losses.

Interest Rates, Risk and Cost of Capital

In addition to a corporate strategy for sustainability, Self-Help has made several strategic choices concerning loan pricing and the degree of risk Self-Help can manage.

Pricing. Self-Help has established a policy of increasing the access to credit to disadvantaged borrowers, instead of lowering the cost of credit. Both options involve high cost to the lender. On one hand, increasing access to credit increases risk, resulting in higher loan losses (or default rates) and loan servicing costs. On the other hand, reducing the cost of credit (i.e. lowering interest rates) gives a lender less income to cover costs. Most development lenders must choose between these two options; it is rarely possible to subsidize both risk and interest rates. Self-Help believes that development lenders, particularly those that focus on commercial lending, will be more effective if they improve access to credit. The problem facing most commercial enterprises is not having credit available at any interest rate. Decreasing interest rates does not help firms that are considered a credit risk by conventional standards, if a lender is not willing to broaden its underwriting criteria. The cost of capital does not significantly affect the

Dick Gilbert and friend at the Stone Soup Restaurant in Asheville, N.C., another Self-Help Ventures Fund project.

profits of most commercial borrowers. For example, a 50 percent reduction in interest rates generally only makes a 1-2 percent difference in a business' net margin, yet halves revenue to the lender. Therefore, lowering the cost of credit is an ineffective application of subsidies because it makes only a marginal difference to a firm. A more effective strategy is to subsidize risk to reach firms that are not served by conventional lenders. (The one exception to this principle is in low-income housing, where borrowers are enormously sensitive to interest rates. In this case, interest subsidy is essential to reaching low-income families.)

Many of the publicly-funded enterprise loan programs of the 1960s and 1970s focused on both reducing interest rates and increasing access to loans. Many of these programs were unable to manage the loan losses associated with this strategy, despite a relatively unlimited supply of federal subsidy. Today's development lenders must use more sophisticated management techniques to insure that they can make loans without bankrupting their organizations.

Risk. Self-Help manages a portfolio of home mortgage and commercial loans that would typically be considered poor or marginal credit risks by the underwriting standards of conventional banks. Yet it continues to operate on a profitable basis, and maintains acceptable delinquency and loan loss figures. Self-Help has been able to adapt its staff and finances to manage a degree of risk that conventional banks avoid. Development banking expands the management principles of conventional banking to include the selected use of technical assistance, greater attention to loan collections, and careful management of the loan underwriting process.

Self-Help offers technical assistance to companies with specific weaknesses that they can address with additional information or training in simple management procedures. In many cases, technical assistance is provided to companies that have not accurately determined the financing they need to achieve viability. Self-Help sometimes counsels existing customers to take advantage of new market opportunities or to address difficulties that affect company performance. Self-Help either provides technical assistance directly or refers clients to other sources (government business assistance programs and private consultants). However, Self-Help is careful not to replace a client's in-house management with outside assistance and advice.

Recognizing that many of its lending programs involve high delinquency rates, Self-Help emphasizes its loan collection efforts. Delinquency, and therefore higher loss rates, is a particular threat in home mortgage programs, where borrowers often have marginal credit histories or unstable income. By remaining in close contact with borrowers to remind them of their payment schedule, good payment patterns are established early. This small initial effort saves considerable time and money later. Self-Help has received high marks on its collections procedures from Fannie Mae (the largest secondary market mortgage institution), and has kept an otherwise difficult mortgage portfolio within acceptable delinquency levels.

Self-Help's underwriting process seeks to expand the definition of a "bankable" loan, but also has its own limit of acceptable risk. It is crucial to choose the appropriate criteria for the approval of a particular loan so that interest revenues and loan losses are maintained at predictable levels while insuring that development objectives are also met. In the absence of research or practice on the particular underwriting problems facing development banks, Self-Help has had to learn from its own successes and failures.

Self-Help's approval process borrows heavily from conventional banking, but adds several distinct features of its own. First, underwriting criteria are more flexible, allowing Self-Help's loan officers to seek out strengths in one area of a borrower's application to compensate for weaknesses in another. For example, a commercial borrower may not have enough collateral to fully secure a loan, but another factor, such as unusually strong profits, a partial guarantee, or a large and profitable contract, may compensate for the lack of collateral. Self-Help offers several types of mortgages, each of which is designed to compensate for conventional weaknesses such as low down payments, less stable personal incomes, or problems in credit histories.

In contrast to conventional banking practice, Self-Help identifies weaknesses in a loan application, and to the extent possible, helps the applicant to address them. Loan officers often suggest a variety of ways in which borrowers can improve their applications. Self-Help actively seeks the assistance of government business and mortgage loan programs to reduce risks. It has packaged its loans with Community Development Block Grants, Small Business Administration guarantees and debentures, local government revolving loan funds, and Farmers Home Administration Business and Industry programs.

Direct lending plays only a limited role in solving economic problems. Certainly Self-Help, by lending $10 million a year, or even $100 million a year, will not eliminate poverty in minority families. Self-Help sees itself as a laboratory for economic opportunity, testing new development concepts, strategies and programs, casting aside those that don't work and refining the ones that do. By setting an example for change in public economic development programs and private banking, Self-Help can advocate for larger institutional changes with greater significance in the fight for economic opportunity and justice.

Designing Hillside Protection Studies: Criteria for Assessing Environmental and Visual Value

Robin Corathers

"All too often in this country we think we have two choices....to buy land and lock it up forever in a park or a preserve, or to let anything-goes, horrible, schlocky development occur right next door. Those are not the only choices we have in this country. There is a third choice, and that is we can have growth and development that respects the character of a place and respects and enhances the character of our landscape." [Edward T. McMahon, director, American Greenways Program, The Conservation Fund November 25, 1991 at The Hillside Trust's "Hillside Protection Strategies" conference in Cincinnati, Ohio.]

The Greater Cincinnati metropolitan area in southwest Ohio and northern Kentucky is graced with an extraordinary network of rivers and green hillsides formed thousands of years ago by three different glaciers. The forested hillsides and the river systems give the region a unique visual personality and contribute significantly to the area's quality of life. This hillside system provides aesthetic, economic and environmental benefits to the urban region. The ribbons of green open space offer spectacular views and opportunities for outdoor recreation within an urban setting. Real estate values for areas with views, or adjacent to or near unspoiled slopes, remain high. The hillsides are an integral part of the urban ecosystem, providing wildlife habitat and migration corridors as well as relief from air pollution caused by urban congestion. The forested slopes prevent soil erosion and flooding and help conserve energy by shading buildings in summer and blocking cold winds in winter.

The hillsides are also quite fragile; Greater Cincinnati is known for its costly landslides. U.S. Geological Survey studies indicate the costs of landslide damage to private property and public infrastructure in the Cincinnati area are in the millions of dollars annually. The geological history of the region has resulted in an abundance of steep valley slopes, consisting of glacial clays and till, atop bedrock formations containing high percentages of shale. Many hillsides, particularly along the Ohio River, are not yet in a state of geological equilibrium, a condition geologists call "immature topography." These factors, together with a high average annual rainfall, contribute to the area's many landslides. But it has been insensitive development--cutting into the toes of slopes, placing fill on slopes, regrading and paving without controlled drainage--which has triggered the vast majority of landslides.

In addition to landslide damage, insensitive development and poor design have changed the visual character of the hillsides and destroyed valuable natural areas. Until about fifteen years ago, the region's hillslopes remained largely undeveloped, with most construction occurring in valley bottoms and on hilltops. In the past decade, however, development pressures for even the steepest slopes have sharply increased due to several factors including growing scarcity of undeveloped flat land; technological advances in earth movement and retention methods; and the increasing number of people who want and can afford properties with a view.

About fifteen years ago, the city of Cincinnati recognized the potential danger of insensitive development. It authorized, by ordinance, the creation of a series of

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This article is based in part on The Hillside Trust's publication principally authored by Samuel V. Noe, an architect and professor in the School of Planning at the University of Cincinnati. Noe is a board member of The Hillside Trust.

"Environmental Quality (EQ) Hillside Districts," a zoning overlay within which protective measures could be established. To date only half of the hillsides in the city have been designated as EQ Hillside Districts, and in most of the region the need for hillside protection has not been addressed at all.

Two factors have limited the adoption of rational and well-coordinated policies and enforcement of stringent regulations by local governments. Many government officials in the region have supported unlimited growth and have been reluctant to antagonize developers who they believe would oppose hillside protection measures. The lack of information about the "environmental and visual sensitivity" of hillsides within the various political jurisdictions located in the Greater Cincinnati metropolitan region has further hampered protection efforts.

As this view form Price Hill illustrates, Cincinati's hillsides combine with the Ohio River to form a natural visual amenity.

In 1988, the Hillside Trust, a private nonprofit regional land conservation organization, began research to provide better information about the hillsides and better tools for both its internal decision-making and that of local governments and others concerned with hillside development and preservation. The Trust formulated the following research questions:

- How should the relative aesthetic qualities and environmental significance of hillsides in the metropolitan area be assessed?
- How can these distinctions be related to vulnerability to landslides and development?
- What are appropriate guidelines and regulations for cases where sensitive hillside development is possible?
- Which hillside areas deserve priority attention by the Hillside Trust and local governments?

The Hillside Trust recognized that a comprehensive approach to hillside protection was needed to guide sound decision-making. The Trust's staff and consultants designed two research projects: one documenting the relative sensitivity of hillside land and identifying critical natural areas for priority attention; and a second creating a model set of hillside development guidelines and regulations for adoption by local government.

The Hillside Trust proposed to study the impact of development type, density, design, and location factors on perceptions of visual quality and how to incorporate this information into planning guidelines, goals and objectives. The Trust contacted the U.S. Forest Service for technical and financial assistance. It was referred to the Forest Service's North Central Forest Experiment Station in Chicago, Illinois, which had done research on visual preferences and visual resource assessment methodology. The Forest Service had developed a Visual Management System for evaluating wilderness areas, but this methodology had never been adapted to urban environments nor incorporated into a geographic information system (GIS). Previous research by the North Central office in Cincinnati had shown that intense hillside development can negatively affect perceptions of visual quality.

The Forest Service expressed interest in this proposal and agreed to fund it through cooperative research grants. In addition to the Forest Service funding, the Hillside Trust was able to secure financial and in-kind service support for the two studies from eleven state and local government agencies and private foundations, and from scores of individual professionals and interested citizens who volunteered their expertise and time.

Although the geographic scope of the Trust's research is limited to the Greater Cincinnati region, its work should be of interest to elected officials, planning and zoning commissioners and staff, design and development professionals, park commissioners, civic leaders, and others concerned with land conservation and development issues in hilly terrain. In particular, the design of the Hillside Trust's studies and the development guidelines they generated can serve as a useful model for any community where visually and environmentally sensitive hillside land is subject to development pressures.

GIS Study

The Hillside Trust decided to use a computer-based geographic information system (GIS) to provide a flexible and dynamic technique for identifying critical hillside areas. The Trust was particularly interested in using GIS to:

- analyze potential implications of alternative patterns of development and planning strategies;
- "zoom in" on specific sites within the electronic maps and conduct more detailed studies;
- allow government planners to adjust the parameters of the analytical models, based on new or different environmental data or different sets of assumptions;
- rapidly update data and produce maps at different scales.

Although the Hillside Trust is concerned with the protection of hillside resources in a five-county area in southwest Ohio and northern Kentucky, it limited its GIS study to hillsides in Hamilton County, Ohio and Kenton County, Kentucky, an area encompassing over 370,500 acres. This choice was made because of budget constraints and because these counties had their own GIS or are in the process of establishing one.

Research involved the design and testing of systematic computer-based models for mapping hillsides. The analytical models rate hillsides according to relative visual quality, landslide hazard, value as ecological corridors, and susceptibility to development. These classifications were then combined to produce six color-coded composite maps showing the relative sensitivity of hillside land to development.

The analytic models determined the data requirements for the study. Hillside Trust staff collected existing information from a great range of original mapping scales and map types. Landsat satellite imagery was used to update land use/land cover information. The map coordinate system selected was Universal Transverse Mercator (UTM). ERDAS GIS software was chosen for use in digitizing map information into the GIS because of its efficiency and speed. This transformation process was closely monitored because of inaccuracies in some of the original maps.

The Trust hired Dr. Douglas Way, a landscape architect and consulting principal of the SWA Group, Columbus, Ohio, to develop the analytical models in consultation with the Hillside Trust staff and an advisory committee, which included representatives from all the supporting organizations. Dr. Way produced a series of primary and summary maps of hillside characteristics for the project.

Analytical Composite Maps

Visual Sensitivity. An analytical model was developed to determine the relative visual quality of hillsides as a function of land use/land cover, proximity to water, diversity of positive landscape elements, and location along the hillside upland edge (the area most critical to visual impact.) Natural, undeveloped areas that are close to water, with a combined view of forests, water, agricultural land or pastures, and are located on the sensitive hillslope rim were rated highest in visual quality and sensitivity.

Landslide Potential. Geological information, degree of slope, and evidence of previous landslides were used to determine relative landslide hazard. In the Greater Cincinnati region, landslides are most likely to occur over the Fairview and Kope bedrock formations, which contain up to eighty percent shale. Slope instability is also associated with areas located above lacustrine clays. Steepness of slope and proximity to existing areas of instability are the other primary variables in determining landslide susceptibility.

Ecological Corridors. While studies in other parts of the country have documented the importance of forested areas in filtering particulates from the air and absorbing and storing carbon dioxide, in moderating temperatures, and in preventing erosion and flooding problems, little data of this variety

Extensive grading of hillsides makes them susceptible to landslides and erosion.

was available in the Cincinnati area. After conferring with biologists and other scientists, the Hillside Trust instead decided to focus on the region's pattern of ecological corridors which sustain an abundance and variety of wildlife.

The relative importance of each hillside as an ecological corridor was determined by examining land characteristics (upland, rim, slope, valley), proximity to water, land use/land cover, and, where documented, the presence of threatened and endangered species. The most ecologically significant zones are found in linear patterns following the valley systems, along the lower edges of the hillslopes, adjacent to or near streams, and in areas least disturbed by development.

Development Susceptibility. Susceptibility to development was determined to be a function of proximity to existing or proposed infrastructure, including major roads, water and sewer lines; construction costs determined by topographic slope and flood hazard; and visual amenities including view potential from hillside edges and valley slopes.

Summary Maps

Visual and Environmental Sensitivities. To identify critical hillside areas, a composite map was generated that identifies hillsides with high visual sensitivity, high quality ecological corridors, and high landslide potential. This analysis provides multiple justification for protection of these areas through permanent preservation methods and through use of more stringent controls over any future proposed development.

Hillside Action Priorities. As an additional planning tool, the summary map of visual and environmental sensitivities was overlaid on the map of development susceptibility to identify where high quality sensitive hillside areas are also susceptible to future development. This composite map locates higher quality hillsides that are under less pressure at the present time for development and may therefore be less expensive to acquire, as well as hillsides of relatively low visual and environmental sensitivity where it would be appropriate for local governments to direct future development.

Detailed Small Area Analysis

To demonstrate future applications of the GIS-generated data base for local planning decisions, the Hillside Trust chose a "micro" area spanning the Ohio River and illustrated how a hypothetical study could be conducted for parkland acquisition. The detailed model illustrates the change in scale from regional analysis to site-specific study, using the output of the "macro" analysis while also including appropriate "micro" information.

In this example, desirable land was defined as all undeveloped parcels larger than one acre, rated as having high visual sensitivity or high quality as an ecological corridor and rated as having a high susceptibility to landslides. To this was added more detailed site information including analysis of soil types and their limitations for development; the quality of tree stands as evaluated by a U.S. Forest Service landscape architect who visited and mapped the sites; and information on zoning, land ownership, mean value of parcels, and proximity to major roads.

Development Guidelines

The Hillside Trust used several research methods to formulate appropriate guidelines for development in sensitive hillside areas (see figure 1):

- survey and evaluation of legislation in use by cities and counties with similar topographic features throughout the United States;
- consultation with environmental, development, planning and legal professionals;
- adaptation of the U.S. Forest Service's visual preference methodology, focusing on a number of develop-

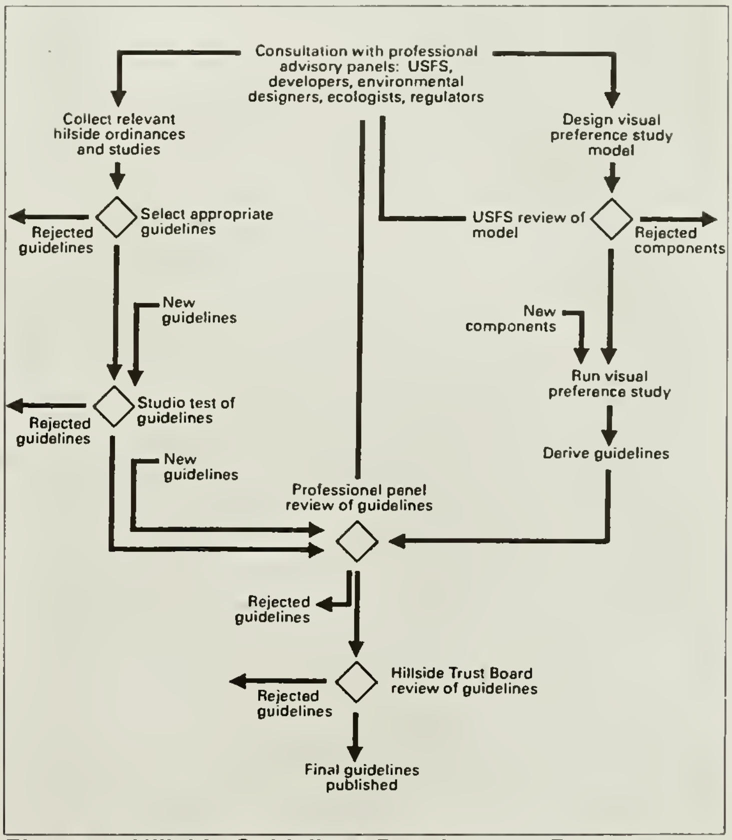


Figure 1. Hillside Guidelines Development Process

ment variables and their visual impact in an urban environment;

- testing of packages of guidelines in a University of Cincinnati studio of advanced architecture and planning students, supervised by respected developers in the region.

Guidelines Derived from Existing Ordinances. Provisions of ordinances from around the country were classified by type, relative degree of importance, and type of legislative or policy vehicle in which they are most appropriately included. The guidelines determined to be most applicable to Greater Cincinnati are a range of public policies; guidelines for regulation of subdivisions of hillside land; zoning to regulate density of hillside development; zoning to regulate the visual character of hillside development; earthwork, erosion, drainage and sedimentation controls; and retention and replanting of vegetation.

Guidelines Derived from the Visual Preference Study. The Hillside Trust incorporated public opinion into its research using a modified version of the U.S. Forest Service's visual preference technique. The results of the visual preference study provide an additional basis for recommending where green space should be maintained on the hillsides and where different types of buildings relate harmoniously with the natural environment. The conclusions drawn from the visual preference study also lend an additional measure of legitimacy to the recommended guidelines, because the guidelines embody the views of both a representative sample of local residents as well as professionals whose work involves different aspects of hillside development in the region.

The Trust hired John Decker, an architect, landscape architect, and professor at the School of Planning at the University of Cincinnati, to design and execute the visual preference research. The visual preference rating technique involved the creation of thirty views of characteristic hillsides, developed to different densities with a variety of building types, and sited in a range of different patterns. Most of the views were synthetically constructed, using a computer imaging processing system to overlay photographs of a range of building types on a photograph of an undeveloped hillside. This permitted virtually every likely pattern of hillside development in the collection of views.

Lay and professional research participants were asked to indicate the extent to which they found each image either attractive or unattractive and, in cases of extreme reactions, the reasons for their feelings. The responses were then tabulated, and later used in the development of a number of guidelines.

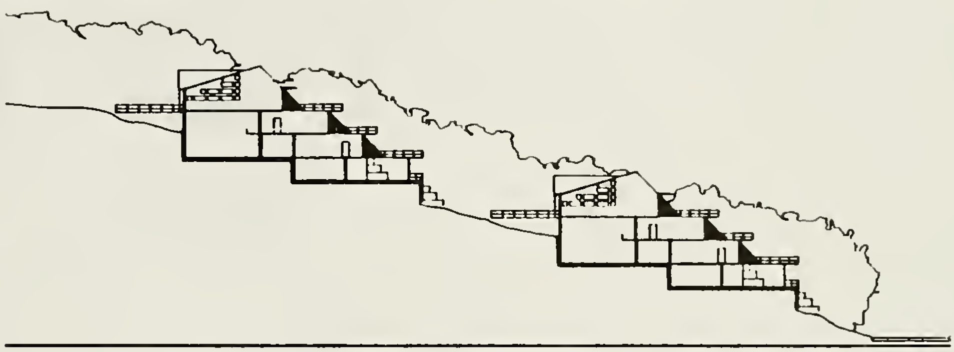
After examining the thirty images, each respondent was asked to work with an operator of the computer imaging system to construct a preferred pattern of hillside development. The total collection of "ideal" development patterns on the same hillside were then superimposed on one another in order to locate the portions of the hillsides most often left free of development and the locations most commonly favored for different types of buildings.

The Hillside "Studio": Testing Guidelines in the Design Laboratory. Midway through the project, a number of promising approaches to regulation of hillside development began to emerge from the preliminary analysis of legislation in use in other parts of the country. These approaches were evaluated and compared in an urban design studio exercise at the University of Cincinnati to test their appropriateness to local conditions. In this exercise, four teams of advanced students from the Department of Architecture and the School of Planning were asked

Hilltop highrise development should be reserved for a few promontory points and be subject to rigorous design review to ensure proper hillcrest setbacks.

to design housing developments on two prototypical Cincinnati sites.

Two of the teams were assigned an eight-acre mid-slope site in an inner suburban location. They were instructed to design approximately fifty dwelling units, with each team following a different package of development regulations. The other two teams were assigned a hillcrest site on a commanding ridge overlooking the Ohio River and downtown Cincinnati. They were also given different development regulations and asked to design between forty and one hundred dwelling units, in either a high-rise or a less obtrusive configuration. All teams were assigned a practicing residential property developer as a mentor and design critic.



Housing development appropriate to a mid-slope site located on an inner suburban hillside. Density has been kept low by clustering the units, leaving much of the forested hillside untouched.

During the exercise, the students were asked to evaluate the set of guidelines they were working with and to suggest revisions which might contribute to designs more compatible with the hillside environment. The design work continued based on these revised guidelines.

The range of architectural designs produced in the studio proved useful in determining appropriate locations for different types of buildings on the hillsides. The testing of the different development guidelines employed proved equally helpful. Some guidelines had the potential to place unreasonable economic burdens on project developers. Others, while preventing many forms of inappropriate development, also had the effect of constraining particularly imaginative and desirable approaches to design. This studio experience influenced final choices for recommended development guidelines, primarily by helping to discard less promising approaches.

Expert Consultation. Throughout the course of this project, the Hillside Trust consulted with a variety of hillside development professionals, including soil scientists, geologists and geotechnical engineers, landscape architects, architects, urban designers, ecologists, biologists, planning officials, developers, and attorneys.

These experts assisted in the design of the study, participated in workshops on development guidelines and seminars based on the studio work, served as subjects in the visual preference study, and reviewed drafts of the Hillside Trust's final report.

In all, 162 guidelines were generated from the study. The Hillside Trust believes some of these guidelines are essential to any local government's hillside protection program. Of particular note are the Trust's recommendations for public policies that call for designation of hillside protection overlay districts; establishment of hillside development review boards; public acquisition of fee simple title or conservation easements for critical hillside areas; and requirements that public and quasi-public agencies be bound by hillside protection measures in addition to private property owners. Other guidelines are recommended or optional and should be considered a menu from which local governments can pick and choose, depending on their own needs and unique circumstances.

Next Steps

The Hillside Trust announced the completion of its research projects in June, 1991, at its annual membership meeting, and received favorable local press coverage. Since that time, the organization has been working to familiarize elected officials, planning and zoning commissions and staff, design and development professionals, and concerned citizens with its findings and recommendations through public presentations and meetings. On November 25, 1991, The Hillside Trust held a day-long public conference entitled "Hillside Protection Strategies for Greater Cincinnati" which 175 professional and lay people from Kentucky and Ohio attended. Speakers covered topics from specific land conservation methods to regulating the quality of design for hillside development.

[Editor's note: A full account of project methodologies, findings and recommendations can be found in The Hillside Trust's three-volume publication A Hillside Protection Strategy for Greater Cincinnati. Copies of the three-volume set of books summarizing The Hillside Trust's research are available for $45 plus $5.50 for shipping and handling. Copies of the hillside development guidelines data base are available in either 3 1/2" or 5 1/4" floppy disks for $25 plus $3 for shipping and handling. For more information about The Hillside Trust's work, write or call:

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The Circus Comes to Town: The RTC's Affordable Housing Program and its First North Carolina Auction

David Spence
Sharon Levy

On a late June afternoon, hundreds of spectators sat waiting in the yellow heat beneath a big-top tent. Young couples fanned children with folded programs and craned to see any movement on stage. Finally as organ music filled the tent, the master of ceremonies ascended the stage and barked greetings into the microphone. The crowd was captivated. But this was not the circus they had come to see. This was Resolution Trust Corporation's Affordable Housing Program!

Since the Resolution Trust Corporation (RTC) took its first steps toward implementing the Affordable Housing Disposition Program in 1989, housing advocates, congressional sponsors, and the press have lambasted the agency's efforts to reconcile the competing statutory objectives of the program. In recent months, criticism of the program has been calmed somewhat by the RTC's success at moving huge numbers of low-priced homes in highly publicized public auctions. Unlike the RTC's earlier attempts to dispose of its affordable housing inventory, the auctions have been spared most criticism, attracting instead the fanfare and hyperbole of a big-top circus coming to town.

As part of its sales blitzkrieg covering the Northeast, Southeast, and Southwest, the RTC sponsored a series of real estate auctions in North Carolina's Research Triangle Park in late June 1991. All of the properties, ranging from undeveloped land to small shopping centers, were taken from the real-estate-owned inventories of Raleigh's failed First Federal Savings and Loan. The 107 properties eligible for the Affordable Housing Disposition Program were sold during to two days of auctioning. Under the program, low-priced single-family and multi-family homes are separated from other assets and marketed for 90 days solely to low- and moderate-income households, nonprofits, and public agencies. According to its own criteria, the RTC considered the North Carolina affordable housing auction a smashing success.

The question remains whether the auction was a success when measured in terms set by statute, housing advocates, public agencies, and the buyers themselves.

How Bank Regulators Became Housing Providers

In early 1989, President Bush unveiled a comprehensive plan to resolve the crisis in the thrift industry and, in Bush's words, "to promote a safe and stable system of affordable housing finance through regulatory reform." The President's bill was sent for review to the House banking committee, chaired by Rep. Henry Gonzalez (D-Texas). A stalwart advocate of affordable housing, Gonzalez had witnessed a dramatic decline in conventional housing assistance from the federal government during the Reagan Administration. Federal budget authorizations for housing had fallen from 5.2 percent of total budget authority during the Carter Administration to just 0.73 percent in Reagan's 1989 budget (then still in effect).[1] When the President's bill emerged from the banking committee it carried an amendment creating a 90-day right of first refusal for low-income families and nonprofit and public agencies on low-cost properties held by failed Savings & Loan institutions (S&Ls). The amendment met immediate opposition from the Administration which foresaw delay and increased costs resulting from the affordable housing provisions.

In response, Democrats in the House and Senate cited three justifications for attaching housing provisions to the bailout bill. First, Democrats would support the President if the statute were structured not simply as a bailout, but also as a restatement of industry objectives. Second, the housing program would be a means of giving otherwise wasted properties back to the taxpayers asked to fund bailout. Third, directing the properties to marginal families now would prevent the government

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from having to pay housing subsidies for the same families in the long run.

With the cost of the bailout was growing an estimated $20 to $30 million every day, President Bush relented, and on August 9, 1989, signed into law an amended version of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).[2] The Resolution Trust Corporation and its Affordable Housing Disposition Program were born.

An Affordable Housing Program in a Hostile Agency

The mission of the RTC is to manage and resolve failed thrifts and to dispose of any residual assets that result from resolution. In retrospect, perhaps the greatest error of FIRREA's drafters was the attention given to resolution of thrifts instead of asset disposition. Although the RTC operates under the supervision of an independent oversight board, the RTC's "exclusive manager" is the Federal Deposit Insurance Corporation (FDIC). Traditionally, the focus of the FDIC was to consult with and preserve a troubled institution and, only rarely, to attempt to sell the institution as a whole. This tradition has had a profound impact on the RTC's ability to discharge its duty as a seller of individual, low-value assets.

Also complicating the RTC's mission are Congress' three seemingly contradictory mandates. FIRREA requires that the RTC dispose of residual assets in a manner that maximizes return and minimizes losses to taxpayers; minimizes the impact on local real estate and financial markets; and maximizes the preservation of the availability and affordability of residential property for low- and moderate-income individuals.[3] Throughout the process of translating Congress' intent in the Affordable Housing Disposition Program into workable regulations and procedures, RTC staff and housing proponents have continually butted heads over how to balance these mixed mandates.

The efforts of the RTC to implement FIRREA's housing provisions were further undermined by a staff that was ideologically unsuited to the task of providing affordable housing. The former bank regulators who staffed the RTC were unversed at breaking up an S&L and selling its properties. They were also uninterested in protecting low-cost homes from real estate investors and marketing them to low- and moderate-income families. More than a year after the RTC's start-up, affordable housing sponsor Barney Frank complained that RTC officials "were offended at the notion that they should be worrying about poor people. They didn't want to be a social agency, having responsibilities that would interfere with their high finance."[4] As the housing program has grown, however, the RTC has hired a multitude of workers from other government programs serving the poor.

Outline of the Program

Under FIRREA and subsequent amendments, the Affordable Housing Disposition Program requires that the RTC give a 90-day right of first refusal on "eligible properties" to "qualified purchasers." If the RTC does not receive an acceptable offer during the 90-day period, it may sell the property on the open market.

FIRREA defines qualified purchasers as households earning no more than 115 percent of the area median income, as well as nonprofit organizations or public agencies. Eligibility guidelines for properties are the same as those found in sections 203(b)(2) and 221(d)(ii) of the National Housing Act. One-unit dwellings may not have an appraised value of more than $67,500; two-unit dwellings, not more than $76,000; and three-unit dwellings, not more than $92,000. Multi-family housing may have a maximum appraised value of $29,000 to $58,392, depending on the number of bedrooms.

The efforts of the RTC to implement FIRREA's housing provisions were further undermined by a staff that was ideologically unsuited to the task of providing affordable housing.

Qualifying households may purchase single-family homes subjct to a commitment to occupy the homes as their principle residence for at least one year. The RTC may recapture 75 percent of profits if a home is sold prematurely and without good cause. Qualifying agencies and nonprofits must agree to rent or resell single-family homes to families earning no more than 80 percent of the area median income. When purchasing multi-family properties, agencies and non-profits must reserve at least 20 percent of the units for very low-income tenants, defined as households earning no more than one-half the area median. An additional 20 percent of the units must be reserved for low-income tenants, or those earning 80 percent of the area median. These percentages apply in the aggregate to all complexes purchased, which allows for some segregation of low-income tenants in a few buildings. To prevent drastic segregation, Congress has recently amended program guidelines to

Table 1. Target Incomes Calculated as Percentage of Median Area Income

Family Size	Qualifying Income(115%)	Preferred Income(80%)
1	$35,150	$24,450
2	$40,000	$27,950
3	$45,200	$34,450
4	$50,250	$34,950

require at least a ten percent low-income presence in all buildings purchased. The program also limits rent paid by low- and very low-income families to roughly 30 percent of their incomes.

The 90-day marketing period operates slightly differently for single-family and multi-family properties. Marketing of single-family residences is confined to the 90-day period, during which time the RTC considers bids on a first-come-first-served basis. When choosing between substantially similar offers, the RTC gives first preference to households, second preference to non-

Out of all sales functions, however, it is in marketing that the RTC has best earned its new nickname, "Ready to Change."

profits, and last preference to public agencies. After the 90-day period, all restrictions on sales are lifted.

For multi-family properties, the RTC will only accept written "notice of serious intent" from qualifying purchasers during the period. After 90 days, organizations have an additional 45 days to submit a *bona fide* offer. The RTC then chooses the best offer or, in the event of a tie, the offer that guarantees the highest percentage of low-income residency. In contrast to the single-family rules, even if eligible multi-family properties pass through the protective marketing period unsold, residency restrictions remain effective against future for-profit purchasers.

FIRREA created clearinghouses to act as information conduits between the RTC and qualifying purchasers. These may include state housing finance agencies, district Federal Home Loan Banks, or national nonprofits approved by the RTC. Originally, the RTC Oversight Board did not contemplate that clearinghouses would participate in marketing beyond disseminating of information. By contrast, the Oversight Board has created technical assistance advisors to help more actively in matching purchasers, properties, and financing. The RTC may also enter into agreements with private real estate brokers, auctioneers, and bulk-sales specialists.

RTC Under Fire

From the outset the RTC and its housing program were beset by problems that FIRREA's drafters did not anticipate. Many S&Ls taken over had kept confusing and incomplete records, which made the process of securing title to foreclosed property long and cumbersome. To its later regret, the RTC chose to assign properties to its regional and consolidated offices based on the location of the thrift that had secured the property rather than the location of the property itself. Given the geographic dispersion of investments by failed thrifts, all fourteen consolidated offices may well be responsible for properties in Dallas, for example. At the same time, the RTC gave branch offices very little authority to approve sales. Regional offices independently could only dispose of assets with book values of less than $25,000; consolidated office staff could only sell properties worth less than $10,000.[5]

The most persistent pitfalls within the affordable housing program, however, have been caused not by statutory or organizational limitations, but by the intransigence of the RTC Oversight Board. Until early 1991, the board refused to liberalize policies on price discounting, seller financing, or marketing as permitted by statute. In each area the board justified its position by arguing that Congress' first two mandates of maximizing the return to taxpayers and minimizing the impact of RTC sales on local markets, outweighed Congress' third mandate, to maximize the availability of affordable housing. Harangued by congressional sponsors and housing advocates, the RTC grudgingly has made concessions. Ironically, the open market has been the force behind the most progressive policy changes in the program.

Changes in Pricing, Seller-Financing, and Marketing

The conundrum of the affordable housing program's conflicting mandates is nowhere more obvious than in pricing policy, yet pricing is the puzzle that the RTC, as the offspring of the FDIC, is least equipped to solve. FIRREA allows for discounting to the extent necessary to make housing sales to lower-income families and nonprofit or public agencies feasible. Still, the RTC did not allow price discounting when affordable housing sales began in early 1990. In May 1990, the oversight board allowed properties to be discounted by 15 percent after four months of marketing--one month after qualifying purchasers lost their 90-day right of first refusal. Predictably, sales prices throughout the program's first several months averaged just under 100 percent of appraised value, or $42,000.[6] Not until discounts were increased to 20 percent after "some reasonable marketing" did sales prices drop to 93 percent of appraised value, or $35,700, during the last quarter of 1990.[7]

The pressure to liberalize discounting policies increased through early 1991 and culminated in an amendment to FIRREA that allowed the RTC to set prices on single-family properties without regard to any minimum purchase price.[8] Although housing advocates lobbied the RTC on ideological grounds, the economics of carrying costs provided a far stronger argument for discounting. Using the carrying costs on HUD-foreclosed homes as a proxy, the RTC incurs about $18.25 a day on each eligible property.[9] With 7,500 single-family homes in the program in May 1991, the RTC was paying about $137,000 per day to carry its inventory. Probably more in response to these costs than to the calls of housing advocates, the RTC began to sell homes at deep discounts. By the end of August 1991, the average price of a single-family home had dropped below $25,000, or just 67.4 percent of appraised value.[10]

Seller-financing has developed at much the same pace as pricing policy, slowly at first, but more rapidly of late. Because Congress had notice from Housing and Urban Development, Farmer's Home Administration, and Veteran's Administration housing programs that seller-financing would be a necessary evil of selling to qualifying families and nonprofits, FIRREA allowed below-market-rate mortgages to be taken by the RTC on affordable properties. However, in its "Strategic Plan for the RTC," the oversight board viewed seller-financing as a marketing tool to be used only when banks would not lend and only if the cost of financing is offset by a higher purchase price. In early 1990, the board imposed a requirement that all seller-financed loans be salable on the secondary market within one year, effectively precluding the use of flexible underwriting standards with low-income buyers. Finally, more than a year into the program, the oversight board approved up to $250 million in seller-financing for eligible properties with 5 percent down payments and below-market interest rates for families who were already renting the homes they would buy.

Even since the agency's change of heart, financing arranged by the RTC has been slow to materialize because of organizational delays. Sales of securitized packages of nonconforming mortgages required an amendment to FIRREA, granting RTC employees immunity from securities violations. Reservations of mortgage revenue bonds issued by state housing agencies resulted in commitments of almost $200 million by August 1991, though gun-shy banks in the Southwest had been willing to lend only a fraction of that amount. Wary of becoming a long-term lender because its statutory life extends only to 1996, the RTC currently will finance sales only when no private lender comes forward. The RTC almost always avoids that situation by enticing first-mortgage lenders with "soft second" mortgages of 5 to 20 percent of the sales price.

Out of all sales functions, however, it is in marketing that the RTC has best earned its new nickname, "Ready to Change." At the close of 1990, the RTC took stock of its efforts and found that 75 percent of its properties in number represented only 10 percent of the dollar value of its inventory and that only one percent of the RTC's proceeds were derived from affordable housing sales.[11] The RTC was acquiring low-value properties at approximately three times the rate it was selling them.[12] In response, the agency set a goal of selling 80 percent of its properties worth less than $100,000 by June 30, 1991.[13]

In order to meet its goal, the RTC planned more than 100 sales events to dispose of 9,000 affordable properties throughout the Northeast, Southeast, and Southwest during 1991. At affordable housing fairs, the agency prequalified families on the spot and provided information about area properties and financing. At silent auctions, qualifying families submitted sealed bids on advertised homes. At absolute auctions, such as the one staged in North Carolina, competitive bidding began at $5 and continued until every property on the block was sold. To support these events, the RTC signed contracts with nearly 100 government agencies and nonprofits to act as clearinghouses and technical assistance advisors. The RTC set up booths offering bilingual services in Houston supermarkets and at the Texas state fair. The agency began publishing its own newsletter, *The Silver Lining*, for bankers, nonprofits, local governments, and brokers. Even high school cheerleaders and bands were recruited to perform at auctions.

The RTC met its goal. By June 30, 1991, contracts had been signed on 85 percent of the 5,200 single-family homes that were on the books at the end of 1990. As those who prepared for or participated in the North Carolina auction can attest, the pace of sales was staggering. When the RTC approached the North Carolina Housing Finance Agency (NCHFA) in late May about hosting the auction, the RTC had experienced an 80 percent increase in sales during the preceding month.

Preparation for the North Carolina Affordable Housing Auction

The affordable housing auction held in Research Triangle Park on June 22 and 23, 1991 was among the first auctions sponsored by the RTC Mid-Atlantic Consolidated Office in Atlanta. NCHFA, which had previously contracted to act as an RTC clearinghouse, was given notice of the auction just four weeks before the first bids were cast. The RTC offered some support out of Atlanta, but responsibility for publicity, bidder prequalification, and inventory preparation fell mainly on Hudson & Marshall, the Georgia auction company under contract with the RTC; First Federal Savings & Loan, the Raleigh S&L which owned all the real estate to be auctioned off; and NCHFA. NCHFA in turn contracted out much of the prequalification of buyers to the Downtown Housing Improvement Corporation of Raleigh, the Durham Affordable Housing Coalition, and the Orange Community Housing Corporation.

Even before the auction team knew the size of the inventory or the financing available, newspaper and

Table 2. The North Carolina Auction in a Nutshell

Dates	June 22-23, 1991
Number of Properties Sold	99
Average Appraised Value	$67,720
Average Sales Price	$54,300
Average Buyer Income	$30,170
Bids per Property (Approximate)	8
Total Proceeds (Preliminary)	$5,400,0000

radio ads were run and stories appeared in the local press. NCHFA set up a toll-free phone line to receive inquiries, and Hudson & Marshall scrambled to print-up a brochure for distribution. The RTC gauged that 300 prequalified bidders would be needed to support sales comparable to previous auctions. Instead, NCHFA was swamped with more than 2,000 inquiries, resulting in 1,000 families interviewed and 800 prequalified to bid. Hudson & Marshall sponsored a "buyer's awareness preview" outside Raleigh a week before the event to familiarize bidders with the properties and the auction process; the crowds were five times that expected, backing up traffic all the way to Interstate 40.

Prequalification interviews for bidders lasted thirty minutes and consisted of three steps. Staff determined if the income figures supplied by the family fell below the program limit of 115 percent of the area median, which in the North Carolina auction ranged from $35,150 for a single-person household to $50,250 for a family of four. Very few families exceeded the limits. Second, staff calculated the maximum bid a family could offer based on their income, current debts, and financing available. Finally, staff attempted to answer questions about the auction process and the homes available. Unfortunately, prequalifiers had little information to offer. Virtually nothing was known about the properties other than their location and size and that many were new townhouses built by bankrupt developers. Though no inspections were performed, prequalifiers learned that some homes still lacked carpeting or bathtubs. RTC policy prevented bidders from learning the appraised values of the properties.

Two financing packages were available to bidders. The RTC was willing to provide 30-year, fixed-rate mortgages at 9.75 percent to purchasers who could not find private financing. Families earning below 80 percent of the area median income would pay 3 percent down; other qualifying purchasers would pay 5 percent down. The RTC would pay all closing costs and mortgage insurance, leaving buyers to pay property taxes, title insurance, and homeowner's dues. NCHFA had reserved $500,000 for first-time home buyers who earned less than 80 percent of the median income. The NCHFA's 15-year, fixed-rate financing of 80 percent of the sales price could be combined with a second mortgage from the RTC for 15 percent of the price on the same terms. Winning bidders were not required to use either RTC or NCHFA financing, and it appears few did.

Results of the Auction

The bidders assembled under the big-top tent at the affordable housing auction could not be described as a crowd of welfare recipients or "the working poor," nor were they a herd of disguised yuppies. It appeared that the RTC had achieved the same economic and racial mix that characterized earlier fields of bidders in Boston, Savannah, and Austin. However, winning bidders at the North Carolina auction appear to have been decidedly more middle-class than RTC buyers nationwide. Preliminary results of the auction show the average income of a North Carolina buyer was $30,500, or 87 percent of the area median.[14] For the first twelve auctions in the mid-Atlantic region, buyer income averaged $23,900, or 69 percent of the area median.[15] Nationwide in June, the average buyer incomes was just $23,200, or 61 percent of the national median.[16]

The jump in incomes of North Carolina buyers is partly attributable to the quality of the housing sold. Whereas homes sold in Savannah required major structural repairs and New Orleans properties were being used as crack houses, most North Carolina properties were recently constructed in healthy neighborhoods. Still, price as a percentage of appraised value, which should remain constant, was slightly higher in North Carolina than in other regions. Although in June the RTC was collecting under 78 percent of appraised value nationwide,[17] properties in June's auction sold for 80.2 percent of appraised value.[18] The $5.4 million in bids that the RTC accepted at the auction set a record for affordable housing sales, representing a whopping 105 percent of the book value of the 107 properties.

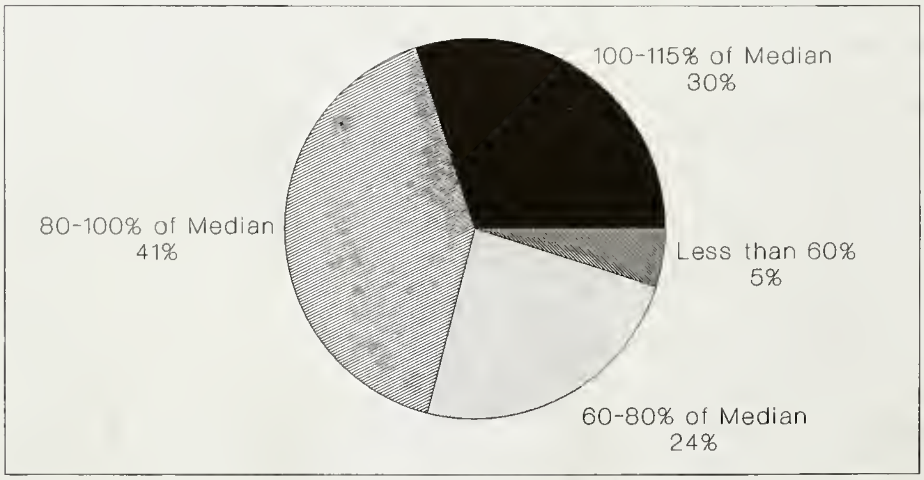

Figure 1. Income of Buyers as a Percentage of Median Income

Conclusion: Is the RTC Fulfilling Its Mandate?

After the North Carolina auction drew to a close and the big-top tent was rolled up for transport to the next town, one had to wonder if this was what Congress had in mind when it created the Affordable Housing Disposition

Program. Strange as its means were, had the RTC finally managed to reconcile its competing statutory mandates?

There is no doubt that the auction strategy serves the program's first goal of maximizing the return to taxpayers on the sale of properties. To illustrate, the RTC settled for 87 percent of appraised value on single-family homes at the June auction. Prior to using auctions, the RTC was recovering about 96 percent of appraised value. However, had the North Carolina properties been marketed individually, the carrying costs incurred in just six months would have reduced the RTC's net proceeds to the 86 percent recovered in June. Through the auction, the RTC was rid of most properties in a matter of weeks. Speedy disposition of properties is even more necessary now that Congress has made single-family properties in conservatorship, as well as receivership, permanently eligible for the affordable housing program. The change will roughly double the number of units in the program's inventory.

The goal of minimizing the impact of RTC sales on local real estate markets is also probably served by the auctions. Prior to FIRREA's passage, brokers and developers feared that if the RTC dumped its real estate there would be a sharp drop in local prices. The real evil has turned out to be the uncertainty that takes hold of local markets when the RTC delays disposition of its huge inventories. The sentiment among builders and economists now seems to be, "Go ahead and get it over with."[19]

Whether auctions serve the last goal of maximizing affordable housing opportunities is, of course, the issue no one agrees on. By the words of the statute, the RTC easily meets its mandate: FIRREA requires sales to families below 115 percent of the national median, and in August the RTC was selling its single-family homes to households earning an average of 59 percent of the national median[20] The Low Income Housing Information Service has cast serious doubt on the accuracy of the RTC's reports,[21] but even so, the RTC has a 50 percent margin of safety on its income levels. Most objections to the program, therefore, are aimed at the way the RTC sells its affordable housing. The auction is a classic example of a forum where truly low-income families are easily muscled out by the middle-class or by households whose incomes understate their actual upward mobility. The disparity in buying power is more pronounced in situations where almost no information is provided on the homes to be sold.

As the RTC has struggled to implement the affordable housing program, it has been subjected to a double standard -- one based on the lenient income limits of FIRREA and the other based on the potential that housing advocates see for providing affordable homes. After a year of auctions, the RTC has lost most of its illusions of being able to sell 1,000 properties a month, all at near-market prices. By the same token, the program's detractors have become more realistic about the RTC's capacity for doing good. Soon after the North Carolina auction, program sponsor Rep. Barney Frank conceded, "We have got to compare [the program] with perfection on the one hand and nonexistence on the other."[22]

Notes

1 Special Memorandum. Washington, D.C.: Low Income Housing Information Service, February 1991, p. 10.

2 Financial Institutions Reform, Recovery and Enforcement Act of 1989, Public Law 101-73, codified at 12 U.S.C. § 1441a.

3 Id., at § 1441a(b)(3).

4 *Newsday*. December 1, 1990, p 5.

5 Donohue, Gerry. "The Inside Story," *Builder Magazine*. March 1991, p. 133.

6 "Affordable Housing Summaries." Washington, D.C.: Resolution Trust Corporation. June-August 1990.

7 Affordable Housing Summaries. October - December, 1990.

8 The Resolution Trust Corporation Funding Act of 1991, Public Law 102-18, 1005 Stat. 58. The Funding Act actually amended the Federal Home Loan Bank Act, just as FIRREA did. However, for simplicity FIRREA is treated as the amended legislation.

9 "Few of the Working Poor Get Homes in S&L Rescue Plan." New York Times. June 26, 1991, Sec. A-1.

10 Affordable Housing Summary. August 1991.

11 Report by the Task Force on the RTC to the Subcommittee on Financial Institutions Regulation, Supervision and Insurance and to the Committee on Banking, Finance and Urban Affairs. March 11, 1991, p. 28.

12 Task Force Report, p. 22.

13 BNA's Banking Report. (April 1, 1991) Vol. 56, No. 13, p. 602.

14 Data provided in November 1991 by the RTC's Mid-Atlantic Consolidated Office. Because many successful bidders were not ultimately able to purchase after income or credit discrepancies were discovered, it can be assumed that many sales reported by the RTC either did not close or are still in the process of being closed.

15 Wiles, O. Jesse. "RTC's affordable housing auctions provide a solution to meet many needs." *Community Enterprise*. Atlanta: Federal Home Loan Bank (September 1991) Vol. 2, No. 3, p. 11.

16 Affordable Housing Summary. June 1991.

17 Affordable Housing Summary. June 1991.

18 RTC data, note 14.

19 "Current Developments", *Housing& Development Reporter* (August 19, 1991), p. 257. (reporting on testimony of Paul Barru, Chairman of the National Associationn of Home Builders' Mortgage Finance Committee before the Task Force on the RTC); and Vandell and Riddiough. "The Impact of RTC Dispositions on Local Housing Real Estate Markets", *Housing Policy Debate* (1991) Vol. 1, No. 2, p. 49.

20 *Silver Lining*. Washington, D.C.: Resolution Trust Corporation. (September/October 1991) Vol. 1, No. 1, p. 6.

21 *The New York Times*. June 26, 1991, Sec. A-1.

22 *Silver Lining*, p. 4.

Promoting Affordable Housing Through Land Use Planning

Paul Ketcham
Scot Siegel

Metropolitan Portland lies between the Coast Range and Cascade mountains of northwestern Oregon, at the head of the fertile Willamette Valley. Bordered to the north by the Columbia River, and divided geographically by the south-north running Willamette River, the three-county metro area covers 3,026 square miles. As home to nearly 1.2 million people, metropolitan Portland contains 43 percent of Oregon's total population. This area puts to the test the state's innovative land use policies, which range from natural resource conservation and historic preservation to economic development, urban design, and housing.

A major quality of life issue for any city is meeting the housing needs of its citizens. When an urban area is characterized by exorbitant housing costs or blighted and crime-ridden neighborhoods, livability suffers. Nationally, housing affordability is declining. A 1990 study of housing costs by the Harvard Joint Center for Housing Studies, shows home ownership rates falling since 1980, especially among young households. The report states nearly 2 million more households would own homes today if ownership rates had remained at 1980 levels. At the same time, rent levels remain at record highs. The report concludes that, "persistent declines in home prices and rents are unlikely on a national scale."

Despite clear need for more affordable housing, local governments are often reluctant to zone land for lower cost housing types--such as apartments and townhouses, and single-family homes on small lots. Typically such housing is discouraged because it contributes less tax revenue than do commercial and upscale residential developments. Exclusionary zoning of this kind hurts low and moderate income households by distancing them from employment centers, safe environments and good schools, alienating them from community affairs and, ultimately, adding to their cost of living.

Such zoning practices are difficult to change without strong action by state legislatures. First, Congress and federal administrative agencies have limited power to regulate the use of real property, whether to conserve land or to specify residential development standards. Congress may prohibit granting federal housing money to localities which fail to meet land use and housing affordability targets, as recommended by HUD Secretary Kemp to President Bush in July 1991. However, the amount of federal housing money is small, and that money is not generally given to suburban jurisdictions where the problem exists. Second, the volume, variety and local texture of most land use decisions make a direct national role unfeasible. Third, federal courts have ruled that the failure of states or localities to provide affordable housing does not violate the U.S. Constitution.[1] Fourth, attempts to overturn exclusionary zoning laws through litigation in state courts have largely been ineffective.[2] At the local level, there is little incentive to adopt "fair housing" laws and forego economic development. Only states can effectively mandate local governments to fairly allocate planned housing types.

The first state legislative effort to attack the affordable housing problem directly was included in Oregon's Comprehensive Land Use Planning Program. Established in 1973, this program has served as a model for land use planning and growth management in other parts of the U.S. Similar state-wide comprehensive planning laws have since been enacted in Florida, Georgia, Rhode Island, New Jersey, Maine and Vermont.

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Oregon Statewide Goal 10 (Housing)

In implementing the Comprehensive Land Use Planning Program, Oregon targeted 19 specific areas of concern. Goal 10 was adopted in 1974, during a period of record growth, and addresses housing issues. It requires local governments to provide, through plan policies and zoning, reasonable opportunity for people of all income levels to obtain adequate and affordable housing. It states:

> *To provide for the housing needs of citizens of the state.* Buildable lands for residential use shall be inventoried and plans shall encourage the availability of adequate numbers of housing units at price ranges and rent levels which are commensurate with the financial capabilities of Oregon households and allow for flexibility of housing location, type and density.

The state's Land Conservation and Development Commission (LCDC) evaluates local plans for conformance with statewide goals. LCDC has interpreted Goal 10 to encompass the legal principles of fair share and least cost housing. This means that each community within a region must consider the broader housing needs of the region in arriving at a fair allocation of housing types (i.e., single-family versus multiple-family housing). For that community, "needed housing" is defined by Oregon law to include multiple-family and attached single-family dwellings (i.e., townhomes and duplexes), and manufactured housing.[3]

Goal 10 also mandates that local standards and procedures for reviewing applications to build "needed housing types" (housing types determined by local governments to be within the financial capabilities of present and future area residents) must be "clear and objective." For example, a local government could not deny an apartment project proposed on a site zoned multiple-family simply on the ground that neighbors do not want it on their block. There must be legal reasoning supported by local and state planning regulations to deny the project. This requirement is codified in Oregon planning law.[4]

Metropolitan Portland: A Model for Regional Land Use Planning

The Portland region has received a good deal of attention for its urban growth boundary policy, which helps to contain urban sprawl. Less known, however, are the region's innovative pro-housing policies, without which the urban growth boundary (UGB) would quickly

A View of Downtown Portland and Mount Hood be pushed to the breaking point by low-density housing. Among other things, housing policies that encourage development inside the UGB help ease pressures to develop beyond the line, or expand it outward.

Critics of growth management argue that UGBs artificially inflate land costs, thus reducing housing affordability and inhibiting economic development. However, in the Portland area, housing costs relative to per capita income have remained well below those of many comparable (unregulated) U.S. cities. In addition, over the last decade the region has prospered. A 35 percent increase in population is expected in the region over the next 20 years.

The Portland metropolitan area (areas of Clackamas, Multnomah, and Washington counties within the regional UGB) developed the Metropolitan Housing Rule to address housing and land use issues. It requires local plans to:

- provide adequate land zoned for needed housing types;
- ensure that land within the the Metropolitan Portland (Metro) UGB may accommodate the region's projected population growth;
- provide greater certainty to the development process; and
- reduce housing costs.

Local governments are responsible for developing comprehensive plans that comply with the Metropolitan Housing Rule. These plans are then reviewed and approved by the Land Conservation and Development Commission (LCDC). The Housing Rule (OAR 660-07-000) requires that:

- each of the region's three counties and its 24 cities develop comprehensive plans which allow for a new construction mix that includes at least 50 percent multi-family or attached single-family units; and
- plans allow development to occur at certain minimum target housing densities.

In the City of Portland, the target density is ten units/buildable acre (una); most suburban areas are to aim for either six or eight una. Clear numeric targets provide a yardstick by which community efforts to promote more compact and affordable housing can be measured. The idea behind the rule is that development at higher densities (or on smaller lots) will result in more affordable housing.

1990 Housing Study

In response to the request from the National Growth Management Leadership Project[5] for an evaluation of Oregon's affordable housing land use policies, 1000 Friends of Oregon and the Home Builders Association of Metropolitan Portland undertook a joint housing study in May 1990. In the context of a recent boom in Portland-area construction and rising home prices, our two organizations wanted to find out how well the region's "pro-housing" land use policies have promoted development of affordable housing.

Study Approach:

- compare actual housing development patterns with planned patterns;
- evaluate, by housing type and density, affordability of post-Housing Rule development;
- determine the reasons why actual development densities may depart from planned densities.

Study Objectives:

- measure the link, if any, between housing costs and implementation of the region's housing policy; and
- recommend land use policy changes to better promote affordable housing within the region and the state.

The study area (Metropolitan Portland) was defined as areas of Clackamas, Multnomah and Washington counties within the Portland Metropolitan UGB. Jurisdictions within this area must comply with the Metropolitan Housing Rule.

The period selected, 1985 to 1989, afforded an opportunity to examine the Metropolitan Housing Rule under a healthy economic regime. Prior to 1985, Oregon and much of the country were in an economic recession.

Building permit and planning approval data were used to compare actual development patterns with the housing policies in local plans. Planners, developers and project engineers completed surveys used to assess the reasons why development occurred as it did. Regional and national data on income, home sales, rents and demographics were collected from several agencies and private data sources to assess housing affordability.

Local governmental planners and a project advisory committee reviewed study methods, verified data accuracy, and provided insight on technical and policy-related issues.

The Study's Findings

The volume of multiple-family and attached single-family development increased dramatically. Some communities developed more multiple-family and attached single-family units during the 5-year study period than had been planned for a 20-year period under pre-housing rule proposals. In 1978, for example, only 371 of one jurisdiction's planned housing units were multiple-family. During the study period, the same jurisdiction developed 1,575 multiple-family units, or 425 percent of its original 20-year plan. In other words, the demand for multiple-family housing during the years 1985-89 could not have been met in some Portland communities under pre-Housing Rule zoning. This finding is significant because it confirms that the regional fair share principle called for by Goal 10 is, at least partially, being realized.

Of all multiple-family and attached single-family units developed, 74 percent were in projects of moderate to low density (less than 25 una); and fewer than 5 percent represented densities higher than 60 una (see Figure 1). These findings allay concerns that minimum density rules would create huge housing "megaliths." High-rise apartment buildings, typically associated with downtown centers, often exceed 150 una.

Low apartment vacancy rates through the study period (indicating strong demand, or consumer "need") attest to the performance of the housing mix rule. In July 1991, the multiple-family housing market remained firm in most Portland communities with the average vacancy rate at 5 percent--rates in excess of 7 percent generally indicate an oversupply of units.

Analysis of income and rent data showed 77 percent of the region's households could afford to rent the region's median-priced apartment in 1989. (Housing is assumed to be affordable when households spend 30 percent or less of their gross income on housing.) By contrast, only 67 percent could afford mortgage payments on the median-priced two bedroom home; the figure drops to 43 percent for a three bedroom home. Yet, housing affordability (the percentage of a region's households able to purchase the region's median-priced house) is 2-3 times greater in the Portland region than in comparable West Coast metropolitan areas (San Diego, Los Angeles, Sacramento, San Jose, San Francisco, Seattle).

The proportion of multiple-family and attached single-family housing increased dramatically. During the study period, multiple-family and attached single-family housing accounted for over half (54 percent) of all residential development. Prior to the Housing Rule, these more affordable types represented only 30 percent of the region's planned 20-year supply of housing. New units were primarily in apartments, rowhouses, duplexes, fourplexes and mixed residential-commercial buildings.

The proportion of smaller and more affordable developed single-family lots increased. Historically, exclusionary zoning favors larger, more expensive home sites by prohibiting development on smaller lots, regardless of market demand. By mandating that certain minimum densities be allowed, the Metropolitan Housing Rule removed a regulatory barrier to development and encouraged the creation of smaller (higher-density), less costly lots. Throughout the region, the density of new development increased by 13-32 percent over pre-Housing Rule levels, with the most significant gains in single-family development.

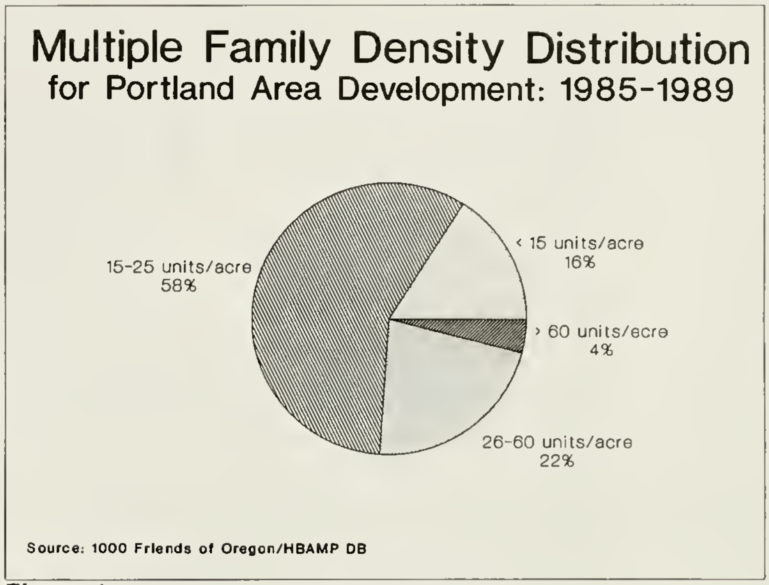

Figure 1.

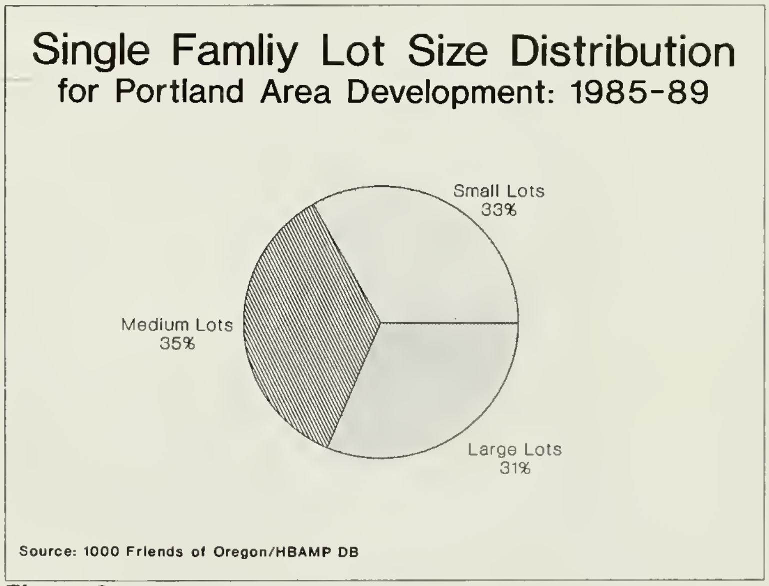

Figure 2.

Single-family development on large lots (or at lower densities) continued to play an important role in Portland area housing markets. The study found development was nearly evenly distributed among three lot size categories: small (smaller than 7,000 square feet (sq. ft.)), medium (7,001 sq. ft.-9,000 sq. ft.), and large (larger than 9,000 sq. ft.) (see Figure 2).

New single-family homes on large lots sold for twice as much as small-lot homes. An analysis of new home sales during 1988-90 shows that 25 percent of the region's households could afford the median-priced house in a small lot subdivision (5,000 sq. ft. - 7,000 sq. ft.); however, the figure drops to 16 percent for medium lot developments (7,001 sq. ft. - 9,000 sq. ft.), and 2 percent for large lot subdivisions (9,001 sq. ft. - 15,000 sq. ft.).

Jurisdictions where building activity was greatest generally came closest to achieving development mix and density *targets.* This finding suggests a tendency to develop at higher densities when growth is contained and land is in high demand. That is, given rapid development of a finite supply of buildable land, economics tend to favor dividing suitable land into smaller, less costly single-family lots; and building a greater proportion of multiple-family housing where zoning allows. This is important information for policy-makers relying on the UGB to control urban sprawl while promoting lower-cost housing development.

Importantly, the decrease in single-family lot sizes and the increase in the proportion of multiple-family development helped to further other regional urban growth objectives, such as cost-effective expansion of public transit and basic infrastructure.

Research into the causes of reduced project densities showed very little citizen opposition to development at higher densities. Of five density-limiting factors ranked by project engineers and local government planners, citizen opposition to higher densities was one of the two least influential--the other being inadequate public facilities or services. This finding is significant because it refutes a common argument that "NIMBY" attitudes are a major deterrent to lower-cost housing developments. Although citizen opposition may reduce housing density in isolated cases, the analysis shows the leading causes of underbuilding are, in order of significance: development economics (profit motive), site constraints, and regulatory constraints.

Land developed during the study period was underutilized to the extent that remaining lands cannot absorb the region's projected housing needs under current zoning. Although housing development in metropolitan Portland during the period 1985 to 1989 exceeded density and mix targets for a 20-year planning period, single-family development consumed land planned for development at densities higher than were built. While multiple-family projects region-wide were built at 90 percent of unit capacity or planned density during the study period, single-family subdivisions were built at only 66 percent of capacity (see Figure 3).

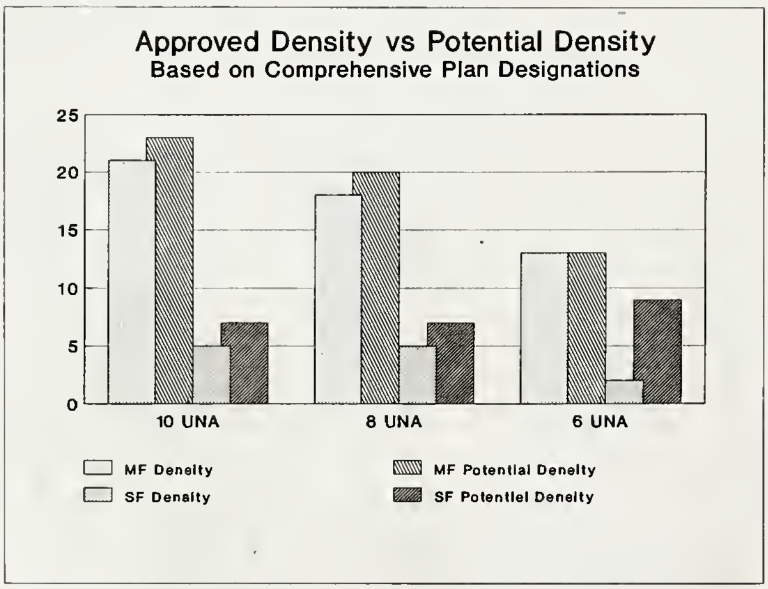

Figure 3.

Since most jurisdictions predicated compliance with the Metropolitan Housing Rule on the assumption that development could occur at maximum allowable densities, the 34 percent density shortfall on these subdivisions is significant. Importantly, 12 percent of all single-family subdivisions developed were on lands zoned for multiple-family housing. This improper implementation of zoning accounts for 2,485 (26 percent) of 9,570 units foregone due to underbuilding of planned densities. As a result of underbuilding, insufficient residentially-zoned land remains to meet the region's projected housing needs over the remainder of the planning period.

While nationally unprecedented gains have been made in the past fifteen years, the Portland model of managing growth to promote affordable housing is not flawless. Gains made over the past decade will erode through the planning horizon (2000) without adjustments to the Metropolitan Housing Rule. "Downzoning" or a reduction of planned densities does not appear to be warranted in any part of the region.

Conclusions

Implementation of the Portland Metropolitan Housing Rule removed a regulatory constraint to development of multiple-family housing. Requirements that local plans zone sufficient quantities of vacant land for multiple-family housing opened the way for development. For example, the 11,110 multifamily units approved in Washington County jurisdictions in five years nearly equaled the 13,893 that had been planned planned to be built over 20 years under the pre-Housing Rule plans.

Overall, multiple-family development comprised 54 percent of all new housing in the region during the study period. Significantly, the study found that 77 percent of the region's households can afford to rent the median-priced two-bedroom apartment, while 67 percent can afford mortgage payments on the median-priced two-bedroom home, and only 43 percent can afford the median-priced three-bedroom home.

Implementation of the Housing Rule removed a regulatory constraint to development of more affordable single-family housing on smaller lots. Single-family housing developed on a wide range of lot sizes, with about two-thirds of the homes built on lots smaller than 9,000 sq. ft.; this compares with an average lot size of 13,000 sq. ft. allowed under pre-Housing Rule plans. The study found that homes on large lots (larger than 9,000 sq. ft.), on the average, cost twice as much as homes on small lots (smaller than 7,000 sq. ft.).

The Portland region's pro-housing policies have helped to manage regional growth while promoting affordable housing. If the same amount of development realized during the study period had occurred at the lower, pre-Housing Rule densities, it would have consumed an additional 1,500 acres of planned residential land within the UGB--an area over two square miles in size. Due to this savings in land area, an additional 14,000 housing units can be built within the UGB. In short, combining Portland's urban growth boundary and "pro-housing" policies helps to manage growth and promote affordable housing development.

The study showed the importance of land use planning in providing for the housing needs of a metropolitan region. It shows that zoning, under a state-mandated housing rule, can be used to increase the availability of more affordable housing types and to make home ownership more attainable by diversifying the stock of single family housing sites to include smaller lots.

Although the study finds that land use planning is a necessary (and, in Oregon's case, successful) tool in promoting affordable housing, the study does not mean to imply that planning, alone is a sufficient means for achieving that end. An important study recommendation is that Portland area governments strategically plan for areas where shortages of affordable housing are most critical, focusing land use policy and public and private investment toward the production and rehabilitation of low cost housing.

Recommendations

In order to recover lost housing opportunities and to better implement comprehensive plans throughout the region, Home Builders Association of Metropolitan Portland and 1000 Friends of Oregon recommend that local governments, Metropolitan Portland and LCDC adopt a new interpretation of the Metropolitan Housing Rule. Since the Housing Rule presently only speaks to planned development, a new interpretation should recognize that Goal 10, through the Housing Rule, mandates development standards.

In brief, we recommend stronger housing density and mix standards for promoting affordable housing and efficient urban growth through the planning horizon, and beyond. The recommendations focus on amending the Metropolitan Housing Rule, and extending its principles to other parts of Oregon. The following recommendations spell out how such standards should be applied.

Mandate Minimum Density Requirements. Development codes normally specify a maximum allowable density for each zoning district. Housing may be built at density levels up to the maximum or "ceiling" density allowed by a particular zone. Our study found that such zoning often leads to unplanned development patterns--for example, by allowing encroachment of single-family (lower-density) development onto lands designated for multiple-family (higher-density) use. This report recommends minimum density standards or density "floors" to help retain buildable land for multiple-family and lower-cost single-family housing. Single-family housing should not be allowed to develop on lands zoned for multiple-family use.

We also recommend a planned unit development (PUD) approach to all single-family subdivisions in higher-density zones. This would require, for instance, that no more than 25 percent of vacant developable land, per project, be divided into large single family lots (i.e., greater than 9,000 sq. ft.). LCDC should enact minimum density standards by amending the Portland Metropolitan Housing Rule. In short, minimum density requirements should help to ensure that the region's projected housing needs are met by retaining lands that are needed for multiple-family developments; and promoting site and building designs which utilize smaller lots for single-family housing.

Reform Local Planning Procedures and Regulations. Local planning procedures and regulations (such as site design standards) played a less significant, though, important role in reducing housing opportunities in the Portland area. The study recommends LCDC apply the "clear and objective" policy during its periodic review[6] of local comprehensive plans and development codes to address this problem. For example, LCDC should review parking space standards and determine whether codes are unnecessarily reducing the number of units which can be built on a given site.

Demonstrate Compliance with Regional Housing Objectives. In drafting comprehensive plans, Portland area governments were required to accommodate their fair share of the region's population growth. In demonstrating compliance with the Housing Rule, they made assumptions about future housing development within their respective jurisdictions. Local governments assumed density, redevelopment and infill potential, and the amount of land needed for streets and other services would be at certain levels. LCDC approved these plans in the early 1980s, aware that each jurisdiction's ability to accommodate projected growth was predicated on the development assumptions.

Upon testing those key assumptions, we found that the region is meeting its general urbanization (density) objectives, but in the long-term several jurisdictions will likely fail to meet the more demanding housing targets under Goal 10 and the Metropolitan Housing Rule. The study therefore recommends amending the Housing Rule to provide a better check on the procedures used to show compliance with Goal 10. A "justification of assumptions" by local governments during periodic review is one way to provide such a safeguard.

Monitor Regional Growth Patterns. This study shows the critical importance of comprehensive data collection in evaluating regional development. The report recommends that local governments monitor urban development and transmit standardized data to the Metro (the region's planning agency), and that Metro use this information to assess the adequacy of the region's land supply for meeting Housing Rule objectives. Assuming that Metro's Regional Land Informations System (RLIS) operates as planned (operational by 1992), the agency should be able to deal with this task.

Evaluate Regional Growth Patterns. Metro should recommend to LCDC that it mandate rezoning, or other policy measures, to offset identified local shortages of needed housing types. To carry out this process, Metro and local governments should identify where requiring higher densities would best support infrastructure investments such as the regional transportation system. For example, zoning should encourage higher-density housing near major existing or planned employment centers and transit stations. Finally, Metro should initiate a study to evaluate whether currently prescribed Metropolitan Housing Rule mix and density levels are adequate for meeting housing, transportation and other urban goals.

Develop Regional Strategies for Affordable Housing. Metro should develop strategies to preserve and rehabilitate the region's supply of special needs and low- and moderate-income housing. In addition, unmet housing needs should be identified, and a regional strategy should be developed to focus land use policy and public and private investment toward meeting unmet needs. Regional strategies for affordable housing should address the "fair-share" distribution of housing responsibilities among the jurisdictions of the region, including the provision of supporting social services.

Mandating a Statewide "Urban Housing Rule." The issues which drove the adoption of the Metropolitan Housing Rule for the Portland area are now challenging other urban areas in Oregon. In its 1990 *Urban Growth Management Study*, the Department of Land Conservation and Development found in four case study areas housing costs rising faster than personal income by as much as 300 percent. In addition, affordable multiple-family housing types are increasingly in short supply outside the Portland metro area. This report recommends LCDC adopt a statewide "Urban Housing Rule," similar to the Metropolitan Housing Rule, to address these concerns in appropriate jurisdictions.

Public Education on Growth Management and Housing. Finally, there is a great need to provide information to the public, within and outside the state, about the benefits of Oregon's land use planning program. Many communities elsewhere are struggling to implement innovative housing policy. Citizens and policymakers, locally and nationally, do not understand the connection between land use policy, housing affordability, and cost-effective urbanization. The report therefore recommends LCDC, Metro and local governments in the Portland area publicize the benefits of regional housing planning, using Portland as a national model.

[Editor's Note: This article was adapted from the Executive Summary of 1000 Friends of Oregon and the Home Builder's Association's housing study, 'Managing Growth to Promote Affordable Housing.' Copies of the report can be obtained by writing Paul Ketcham, Senior Planner, 1000 Friends of Oregon, 534 SW 3rd Ave., Suite 300, Portland, OR 97204.]

Notes

1 In *James v. Village of Valtierra* (1971) the U.S. Supreme Court held that the U.S. Constitution does not guarantee a "right" to affordable housing; and in *Construction Industry Assoc. of Sonoma Co. v. City of Petaluma* (9th Circuit,1975), the U.S. Court of Appeals upheld large-lot zoning used to "cap" the city's population.

2 The famous Mt. Laurel cases in New Jersey in 1975 and 1983 resulted in little exclusionary zoning actually being changed. The court ruled against exclusionary zoning provisions in *Wayne Britton v. Town of Chester* (New Hampshire Supreme Court, 1991), but the long term effects of this case are yet to be determined.

3 See ORS Ch. 197.303; OAR 660-07-035.

4 See: ORS Ch. 183 & 197; OAR 660-07-015.

5 A Coalition of 17 state-level conservation organizations working in growth management and land use policy

6 The Oregon Department of Land Conservation and Development reviews local comprehensive plans every 5-7 years.

Central American Refugee Planning

Julie Locascio

In the 1980s, "Central America" became synonymous with civil war, economic collapse, human rights abuse, and refugee movement. Because of the complexities of Central American politics, refugees from the region have elicited a highly mixed response, ranging from humanitarian to indifferent to hostile. Individuals and agencies trying to serve these refugees or resettle them are faced with constraints that are more political than logistical.

Since the 1970s, 2-3 million refugees have been displaced from their homes in Central America. Central American refugees have presented an unprecedented challenge to planners, relief workers, economists, politicians, administrators, community leaders, and others. Analysis of the refugee planning enacted so far in the region illustrates both appalling and exemplary approaches that can shed light on refugee planning elsewhere.

History of International Refugee Planning

The modern system of international refugee assistance evolved from the migration situations of World Wars I and II. The U.N. set up the Office of the High Commissioner for Refugees to supervise the care of refugees, which was to be entrusted to asylum nations. The birth of UNHCR was accompanied by the 1951 Convention on Refugees, which pertained only to those who had become refugees because of events prior to January 1, 1951 (even though UNHCR was authorized to assist any refugees). The 1951 Convention guaranteed a refugee's right to *make* an asylum claim, but did not guarantee a refugee's right to *receive* asylum. It

> ...defined a refugee as someone outside his country..., unprotected by his own government and having a well-founded fear of persecution on political, religious or racial grounds should he return. A person fitting this definition had legal protection against refoulement [involuntary repatriation].[1]

The High Commissioner lobbied for the expansion of UNHCR's work beyond Europe, and the enlarged refugee mandate was acknowledged in the Protocol of 31 January 1967.

General Regional Responses

Before the 1980s, extensive migration had existed between Central American countries, but had been mostly temporary. An analysis of why refugee movements have become so rampant in Central America over the last decade is beyond the scope of this article; suffice it to say that each country's refugees share similar and dissimilar reasons for migrating within or outside of the region--reasons which include civil wars, state-sponsored terrorism, insurgent-sponsored terrorism, human rights abuses, economic chaos, and environmental degradation.

Though the flights of Central American refugees are based on similar circumstances, the treatment of the refugees depends on *from* where and *to* where they are fleeing. The UNHCR has not succeeded in depoliticizing refugee services in the region; therefore, the myriads of other national and non-governmental organizations (NGOs) responding to refugee needs have been vital to refugee survival.

Honduras is the only country bordering all three civil war zones--El Salvador, Guatemala, and Nicaragua--and refugee policies there have become extremely po-

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liticized. Salvadoran, Honduran and U.S. officials in the 1980s continuously asserted that Salvadoran refugee camps in Honduras were being used as guerilla staging grounds. This official attitude encouraged local Honduran hostility to the refugees as well as hostility--to the point of rape, beatings, and murders--among Honduran soldiers "guarding" the refugee camps.[2] UNHCR was not permitted to investigate any such attacks.

Honduras considered the refugees a temporary problem from the start, and never desired any solution short of repatriation. In addition to a historic distrust of Salvadorans, Honduras has shown resentment at having international agencies operating within its borders.[3] Because the Nicaraguan refugees of the 1980s were at the other end of the political/refugee spectrum, they were not considered an internal security threat and were thus allowed free movement and employment in Honduras. Ironically enough, the Nicaraguan refugees caused the displacement of some 100,000 Hondurans, but continued to receive preferential refugee treatment over the Salvadoran refugees.[4] The UNHCR has struggled to keep Nicaraguan refugees away from the Honduras/Nicaragua border, whereas "the U.S...financed camps right on the border for the explicit purpose of aiding the contras."[5]

Mexico currently "hosts" more refugees from Central America than any other regional actor (besides the U.S.). Like Honduras, she dislikes having large concentrations of refugees along her border, although Mexico has more legitimate security concerns since Guatemalan military forces have raided and bombed refugee camps across the Mexican border.[6] Mexico also fears that the presence of Guatemalan refugees among kindred Mexican Indians might elicit internal support for the Guatemalan guerrillas.[7]

The UNHCR must channel aid through a Mexican agency called COMAR, and can only assist refugees officially designated by COMAR. The vast majority of refugees in Mexico are not recognized by the Mexican government. None of the Salvadorans are recognized at all. Mexico has at times deported large numbers of Central American refugees, despite protests by the UNHCR, COMAR, and others. Because of the lack of recognition for most refugees in Mexico, few have been allowed to work.

Mexico, like Honduras, considered repatriation the best solution, and, barring that, decided to move the refugees away from the Guatemalan border. Most refused to relocate: some fled the camps for other parts of Mexico, and a few returned to Guatemala. Mexican officials have taken extraordinary measures to coerce relocation, including cutting off camp supplies, burning camps, interrogating and beating refugees, and detaining and interrogating Catholic workers.[8] Press and human rights officials were barred access during the deportation periods, and UNHCR itself was barred camp access for eleven days. Mexico has recently begun demonstrating more concern over the human rights abuses faced by the Guatemalans, and since 1988 has ceased pressuring for repatriation.

Nicaragua under the Sandinista government received many refugees from El Salvador and Guatemala, as well as providing a safe haven to many of the UNHCR's most "difficult-to-place" refugees.[9] Nicaragua offered incentives to employers of refugees, and encouraged Salvadoran-run agrarian cooperatives. It is unclear which refugees will wish to or be allowed to continue seeking asylum in Nicaragua under the unstable presidency of Violeta Chamorro, or if any such refugee programs have been continued, particularly since Nicaragua is in the process of receiving many returnees.

In the region, Costa Rica is the final significant host of Central American refugees. Though also holding partisan views of the regional conflicts, Costa Rica's refugee reception in the 1980s was markedly more humanitarian and less discriminatory than the reception offered by the other host countries, and is thus worth a closer look.

Refugees in Costa Rica

Of all the regional refugee hosts, Costa Rica has perhaps made the greatest effort to depoliticize assistance to Central American refugees. Though not immune from national ideologies and security concerns, Costa Rica has offered a relatively more tranquil haven for regional refugees.

Costa Rica is a tiny country (51,000 square kilometers) with a population that only reached 3 million in July 1990. The population changes from 1973-1984 in Costa Rica were extraordinary: whereas the total population of Costa Rica rose 29.1%, the Central American alien population of Costa Rica rose 86%. By April 30, 1990, there were 48,565 officially registered refugees in Costa Rica (mostly Central American), and estimates of 150,000 to 200,000 undocumented refugees.

The presidency of Oscar Arias (1986-1990) was marked by heroic diplomatic efforts to settle the regional conflicts, culminating in the Arias Peace Plan of 1987[10]. Costa Rica and Nicaragua subsequently signed the Agreement on Voluntary Repatriation to begin mutual assistance to the Nicaraguans in Costa Rican territory who wished to return to Nicaragua, an agreement that did not see much success until 1990.

In Costa Rica, national refugee policy is coordinated by DIGEPARE--the General Directorate for Refugees. The General Directorate oversees the refugee-related activities of the Health Ministry, the Education Ministry, UNHCR, embassies, NGOs, etc., and evaluates and approves all refugee projects in Costa Rica.

As of May 1990, there were six refugee camps in Costa Rica, administered by a variety of organizations. Refugees crossing the Nicaraguan border into Costa Rica are normally picked up by the Civil Guard and taken to one of the two reception camps run by the International Red Cross. Refugees receive assistance in education, nutrition, and health. Children up to the age of 16 attend school in the camps; UNHCR pays for supplies and teacher salaries for the camp schools, which are run by the Costa Rican Ministry of Public Education. Theoretically, refugees remain in Costa Rican reception camps only one month (though in practice it often runs as high as 6 months), and can then be transferred to Tilarán--a camp run by the International Rescue Committee (IRC)--for a six-month transitory sojourn to get their legal status processed. Costa Rican immigration officials interview the refugees to see if they are eligible for official refugee status under the 1951 Convention or the 1967 Protocol.[11]

After Tilarán, refugees may move to IRC-run Achote to receive physical and educational preparation for work opportunities (agricultural and handicrafts, mostly). Refugees in Achote continue to receive housing, water, health care, etc., and general counseling on how to integrate. IRC looks for businessmen or land owners willing to hire refugee employees and willing to pay for their Social Security tax. Those who stay in the camps are free to work--mostly on nearby coffee, sugar cane, and other farms; however, they cannot work until they have general work authorization cards, as well as permission from the Labor Ministry and the Social Security Ministry for the specific job requested. In theory, the culmination of camp life is supposed to be integration into Costa Rican society via cooperatives, associations, etc. For instance, several former Salvadoran camp-dwellers formed a permanent cooperative settlement in Guanacaste that has thrived for several years.

In reality, most refugees entering Costa Rica never even go through the camp process; although most of them remain undocumented refugees, some eventually do go to the Immigration Department to apply for asylum. Getting refugee status is a slow process in Costa Rica and can take up to eight months. Temporary status must be renewed every three months, but entitles the refugees to a health examination and free health care from the Costa Rican government, as well as free assistance from the UNHCR.

Applying for work authorization is a separate and equally lengthy process. Refugees used to be permitted only to work in jobs that did not displace Costa Rican workers. However, in January 1990, the Costa Rican judiciary announced that refugees meeting any one of the following conditions would be eligible for any type of work: had been in Costa Rica over three years, were married to a Costa Rican, or had a child born there.

UNHCR is not in direct control of refugee policies and programs in Costa Rica but does provide technical and financial support, as well as serve as liaison for the variety of refugee service-providers in Costa Rica.

The Costa Rican Ministry of Public Education runs schools in the refugee camp.

UNHCR's total 1989 budget in Costa Rica was $6,072,000, augmented by $425,000 worth of food donations from the U.N. World Food Programme and miscellaneous assistance from the UNDP.

In 1989, non-UNHCR contributions to refugee work in Costa Rica included the following: housing funding from Sweden; food from Japan, the European Economic Community, and the Christian Association for Relief Everywhere; medical supplies from Catholic Relief Services; and hundreds of projects and programs funded and/or run by a large assortment of Costa Rican and foreign NGOs, as well as other foreign governments. Costa Rica's refugee policies overall can be considered fairly effective, humanitarian, and beneficial--remarkable attributes given the recent volatility of the region.

Despite the breadth of refugee services available in Costa Rica, the most satisfactory refugee service available in most instances is voluntary repatriation to the refugee's country of origin at a time when it is safe and fruitful to do so. After the defeat of the Sandinista government in Nicaragua, it was generally assumed that armed civil conflict there would end. Since Nicaraguans were by far the largest refugee population in Costa Rica, UNHCR began gearing up for massive repatriation. Prior to June 1990, fewer than 100 Nicaraguans per month were voluntarily repatriating: as of May 1990, 2,600 Nicaraguans had asked to repatriate.

Nevertheless, the situation in Nicaragua did not change enough politically or economically to motivate all of the refugees to repatriate. Many refugee workers in Costa Rica told me that Nicaraguans were still crossing the border into Costa Rica, and that massive volunteer repatriation was unlikely because too many uncertainties remained.

Unfortunately for the Nicaraguans and other refugees, Costa Rica's welcome mat is slowly being withdrawn. In a nutshell, "When refugees first started coming, the government was very generous; after eight years, (a) the resources are limited, and (b) the refugee numbers have increased."[12] Though receiving a substantial amount of international assistance for her refugee population, Costa Rica's own economy is stagnating (for a variety of reasons), and she is under increasing social pressure to repatriate refugees. The government of Costa Rica has, nevertheless, been one of the region's strongest advocates of continued UNHCR refugee-planning in the region.

International Refugee Agreements

Though national security concerns have dominated regional responses to Central American refugee movements, most of the region's governments have signed onto or otherwise recognized at least a few of the U.N. refugee agreements. Countries receiving refugees in the region have adhered to the principle of nonrefoulement, though in practice there have been many problems: access to the legalistic asylum-seeking process is difficult in all the countries; in Honduras, Salvadoran refugees have been attacked and killed by Honduran soldiers while crossing the border, approaching the Honduran camps, and even in the camps; in Mexico, all refugees are subject to expulsion at any time without cause.

Steps towards improving international refugee coordination in the region have increased in recent years, starting with the various refugee resolutions incorporated into the "Central American Peace Plan" of 1984 (Esquipulus I) enacted by the Contadora Group, and the resolutions on refugee principles signed in the Cartagena Declaration of 1984.

In 1987, the Advisory Group on Possible Solutions to Central American Refugee Problems began the process of regional intergovernmental planning and cooperation on refugee issues. In August 1987, Costa Rica, El Salvador, Nicaragua, Guatemala, and Honduras signed the "Arias Peace Plan" (Esquipulus II), further outlining regional goals for refugee assistance. In 1988, the U.N. responded to the peace initiative by approving a Special Plan of Economic Cooperation (PEC) for Central America. PEC's goals were to use development programs to link social and economic policies with the long-term Central American peace process.

An important component of PEC receiving early implementation was PRODERE--the Development Program for Displaced Persons, Refugees, and Returnees in Central America. Drafted in late 1988, PRODERE has used grassroots projects to promote sustainable development in Central America. Projects have included food aid, community organization, health and sanitation provisions, promotion of economic activity, infrastructure improvements, and legal aid. It is coordinated by the U.N. Development Program (UNDP), and includes program assistance from UNHCR, the International Labor Organization, and the World Health Organization.

In May 1989, Guatemala hosted the first International Conference on Central American Refugees (CIREFCA), which brought together representatives from UNHCR, UNDP, the principal NGOs, and the principally affected countries. CIREFCA delegates reaffirmed previous resolutions on Central American refugee issues, as well as recommending the following: development of a North American convention on human rights; recognition of the role of NGOs in refugee assistance; assistance to refugee host nations; and support of the Arias Peace Plan.

Costa Rica, Nicaragua, El Salvador, Honduras, Belize, Guatemala, and Mexico all submitted to CIREFCA specific project requests for relief and development for refugee populations. This commitment of all of the region's governments to cooperate with each other and the U.N. in development-oriented refugee projects was an admission that no one was expecting peace to break out anytime soon in Central America, as well as a recognition that such an unlikely peace would not, in any case, bring about an immediate reversal of refugee flows or provide for smooth refugee returns.

CIREFCA was conceived as a bridge to link emergency-oriented refugee activities to longer-term development initiatives. CIREFCA accomplished several important things:

- all the host countries seriously evaluated their refugee problems;
- the historic tendency to subjugate humanitarian refugee issues to national security was diminished;
- host countries made firm refugee policy commitments;
- service-providers developed more coordination of resources and services;
- dialogue among NGOs, the U.N., and host countries improved;
- host countries agreed that solutions for the displaced needed to be long-term because the refugees had become a major structural problem; and
- UNDP linked CIREFCA to portions of its PEC mandate, thereby establishing strong ties between UNDP and UNHCR in the region for the first time.[13]

With technical assistance from CIREFCA headquarters in Costa Rica, CIREFCA delegates produced solid documentation on their refugee plans for health, education, agricultural production, and basic community infrastructure. CIREFCA projects were not expected to reach all of the 2 million-plus refugees in the region, but they were expected to address the most urgent refugee needs. Though internal strife persists in El Salvador, Guatemala, and Nicaragua, regional cooperation has definitely brought new hope for organized humanitarian assistance to Central American refugees and affected communities.

Refugees in Costa Rica since CIREFCA

Costa Rica has always been an active participant in the long-term CIREFCA process. As UNHCR official José Riera pointed out to me in May 1990, Costa Rica probably administered some $35 million in international refugee aid between 1981 and 1989: "If this had been in job-creation instead of maintenance, imagine the economic development."[14] Though hoping for significant refugee (especially Nicaraguan) repatriation, Costa Rica recognized the potential benefits of proceeding with CIREFCA.

Costa Rica's request for CIREFCA funding in May 1989 was $80 million. Some of the first CIREFCA projects implemented in Costa Rica included: a low-income housing project, paid for by Sweden; the closing of the Alvaperal camp, paid for by Spain; and the closing down of the Limón refugee camp by giving all the residents the means to integrate into the community (housing materials, small business loans, etc.), paid for by the PRODERE fund.

PRODERE continued to fund refugee projects in 1990, with plans for "integrated rural development in different communities," targeting some 300 refugee families and 300 low-income Costa Rican families.[15] In addition, Costa Rica requested more international funding at the June 1990 CIREFCA meeting. Costa Rica's General Directorate for Refugees drafted a total of nine project and program requests, divided into three categories: institutional, economic, and social.

The first institutional project was to be a National Census of Undocumented Aliens. Official documents would be provided to the undocumented, and Costa Rica would study the possibility of allowing them access to basic Costa Rican local governmental services. This documentation would also serve as work authorization. Related to the census would be a "Migratory Regulation and Legalization of Refugees and Undocumented Aliens": six regional migration centers would be constructed and staffed to provide reception, regulate migration, and administer repatriation. The final institutional program would be a "Reinforcement of the Ministry of Labour for the Labour Insertion of Refugees and Undocumented Aliens...into the Costa Rican job market". Coordinated analysis of refugees and employment opportunities would result in the establishment of a national employment bureau to benefit both refugees and Costa Ricans looking for work.

Costa Rica submitted four social projects for CIREFCA funding in June 1990. The first was "Strengthening of National Health Services for Refugees and Undocumented Aliens." This was to be a 3-year project to expand infrastructure and programs in the sectors of primary health care, occupational safety and health, sanitation, nutrition, etc., in areas highly populated by refugees. Second was "Educational Infrastructure Needs to Benefit Refugees, Undocumented Aliens and Nationals"--also a 3-year project targeted for the areas heavily inhabited by refugees. The project would involve repairing 40 old classrooms; constructing 47 new classrooms, 49 new bathrooms, and 60 faculty houses; furnishing 2,500 desks; and providing miscellaneous educational supplies. The third social program submitted was for "Housing Credit for Refugees and Nationals

> *The commitment of all of the region's governments to cooperated with each other and the U.N. in development-oriented refugee projects was an admission that no one was expecting peace to break out anytime soon in Central America...*

Participating in Mixed Productive Projects." The goals were to provide credit to refugees for the purchase of 550 homes--with an emphasis on self-construction efforts--at an average cost per unit of $3,000. Housing credits were expected to assist 100 Costa Rican families and 400 refugee families. The project would (in theory) allow future repatriates to transfer their units to "another refugee family or to a Costa Rican family of similar socio-economic standing" and, in effect, the repatriates could negotiate getting their loan bought out. Finally, a social program was submitted for "Child Care for Refugee, Undocumented, and Costa Rican Mothers." The plan included construction of four new daycare centers and the expansion and/or repair of 13 others in the Limón and San José areas. It was intended to benefit 640 children. Daycare centers are still uncommon in Costa Rica, and expansion of child care options is crucial, particularly in light of Costa Rica's trend towards female-headed households.

The two broad economic projects submitted for funding were "Training and Credit for Refugees in Costa Rica and/or Returnees in Nicaragua," and "Support for Productive and Communal Activities to Attain Self-Sufficiency Among the Nicaraguan Refugee Population Remaining in Costa Rica." In the first,

> Those who opt for voluntary repatriation will receive job training, in coordination with Nicaragua....For those who remain in Costa Rica, training will be provided in the context of the Costa Rican employment market and will facilitate access to credit for the consolidation of small business and/or family-run enterprises. The cost of training is estimated to be US$900 per capita;...credit has been established at a level of US$1,220 per beneficiary.

Refugees wait in line at the Office of Migration of Refugees in San Jose.

The training and credit project was intended to help 6,590 refugees (1,318 heads of households). This project is to be run by ACIAR, a NGO which already has substantial relevant experience. Regarding the second Economic program,

> The goals of this project, which will last 3 years, are the following: economic self-sufficiency for at least 80 families through their incorporation into productive agricultural projects; incorporation of some 90 heads of households into permanent salaried positions with agricultural businesses and industries; establishment of small family production and service businesses and shops for 40 families with semiskilled labor who require a little assistance to attain self-sufficiency; integration of 90 heads of households as partners in solvent existing small businesses and productive organizations; and guaranteed access to basic community public services (health, education, water, electricity, etc.).

The expected beneficiaries would be 300 rural refugee and Costa Rican families "of limited means." This is obviously an ambitious project, but similar (albeit smaller-scale) projects have already been successfully implemented in Costa Rica.[16]

Despite continued CIREFCA planning in 1990 and 1991, Costa Rica has maintained voluntary repatriation as her refugee policy of greatest importance; unfortunately, the disappointing numbers of voluntary repatriates has finally led Costa Rica to consider deportation. In July 1990, Costa Rica initiated a 12-month period in which undocumented refugees were asked to file for residential permits, student permits, or other appropriate documentation. Rosa Eugenia Castro of the General Directorate for Refugees told me on April 1, 1991, that if the undocumented did not apply for status by July 1991, they would be deported.

Evidently, there are still many refugees afraid to come forward to attempt registration in Costa Rica. On February 2, 1991, the *Raleigh News and Observer* reported that Costa Rica was planning to deport 75,000 illegal aliens, and Luis Guardia of the Costa Rican embassy in Washington confirmed on February 22, 1991, that 70,000 deportations were planned. As the end of 1991 approached, this number of deportations had still not been reached, and the future of illegal aliens in Costa Rica remains uncertain.

Costa Rica appears to be at an important crossroads in refugee policy. In many ways, Costa Rica has led the way in careful and humanitarian planning for Central American refugees, as well as cooperation with the U.N. She is evidently worn out economically, however, unable to obtain international donations sufficient to cover the economic and social costs of trying to sustain, let alone integrate, the huge numbers of refugees inside her borders. Costa Rica is also led by a new president with less interest in regional diplomacy and cooperation than in national economic development.

Conclusions about Refugee Planning

The international community can learn many lessons from Costa Rica's first decade of massive refugee reception. One of the most important lessons is that refugee needs cannot easily be separated from the needs of the rest of the country; even refugees in camps will have an effect on local roads, water use, food consumption, employment patterns, and so forth. Refugees free to move and work where they like will have an even bigger impact--an impact that can be beneficial, or at least neutral, if well-planned and aided by outside funding. A humanitarian response to refugees also appears to have some ameliorative effect on regional peacemaking efforts. Finally, the international community should not take advantage of a host country's generosity by denying her adequate financial aid and planning assistance for her refugee services, nor by refusing to accept a fair share of refugees for resettlement.

Once one looks past the political complexities, refugee services require the basic elements of development planning. Thus, the first task of refugee service providers is to minimize the political constraints on their job--either by indirect lobbying, international concessions, or separation of controversial issues from main resettlement projects. Once political obstacles are neutralized (or minimized), refugee planning should be integrated into comprehensive development programs.

In a broader sense, the Central American refugee crisis has dramatized the need to reassess the response to refugees throughout the world. Although host governments are reluctant to see international assistance go to refugees rather than citizens, development-oriented assistance can prove beneficial to both the refugees as well as the surrounding communities. Writing for the Population Council, Charles Keely has taken this approach to a more radical level:

> ...refugees are a product of underdevelopment. Since over 95 percent of the world's refugees are in Africa, Asia, and Latin America, one should question whether a strategy emphasizing camps and third-country resettlement that developed in a European context is becoming increasingly unable to cope with current realities....resources should be channeled to asylum countries to make refugees self-sustaining, and there should be development aid for indigenous populations in the areas of host countries where refugees are given asylum.[17]

Resettlement workers should forego the assumption that refugees are only temporary residents, and make medium- or long-term plans on their behalf. Even if they were to repatriate, the process would be slow, and thus allow for a gradual phase-out of any programs, or a transformation of successful programs from refugee-orientation to citizen-orientation (i.e., small-scale enterprises could be sold or given to local citizens, housing could be transferred, etc.). Resettlement workers should, if financial resources permit, give refugees access to the full range of social services necessary to mainstream them--housing, job referrals, transportation, education, etc. This is a productive use of relief funds that should serve to enable refugees to become participatory and contributory members of society, if only temporarily.

Integration depends on local economies as well as political attitudes towards the refugees. Planners must learn to view refugees as residents with special needs--not as foreigners with separate needs--and plan comprehensive policies encompassing them. Planners should also involve the refugees in the planning process.

Obstacles to successful policies for refugee-planning remain. First of all, there is always concern that treating refugees too well will encourage further migration. Though this possibility cannot be entirely denied, one must not forget that the original wave of migration was not caused by expectations of a cushy life somewhere else, but rather from a desperate need to escape an unlivable situation in the country of origin. Few people depart their homelands without serious emotional trauma and, while rumors of great treatment on the other side of the border may be a decisive factor in deciding to leave, such expectations would never be the initial factor motivating the migrants to go. In addition, development-oriented refugee planning is a slow process and could not even begin logistically before analysts have had enough time to assess whether or not there is a good chance that the refugees will be able to return to their homelands "soon." However, in situations where development-oriented or integration-oriented refugee planning is economically or politically unacceptable, the host country should consider lobbying for resettlement to a third country rather than leaving the refugees to languish indefinitely in camps.

Ultimately, no matter how many international agreements are signed, independent states will not yield sovereignty when it comes to immigration. Even if a country is bound by treaty not to deport someone to the country from which he/she fled, the country might still force the refugee to go to a third country. Even the most rational and depoliticized planners cannot escape the political baggage attached to refugee planning. Understanding of the issues involved is the key to doing as much as possible for these people who have suffered so much.

[Editor's note: This research coincided with the inauguration of a new Costa Rican president, and also came shortly after the inauguration of a new Nicaraguan president, and therefore pertained to refugee policies that would soon thereafter undergo significant change.]

Notes

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10 Also known as Esquipulas II, detailed in the next section.
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Coordinating Housing and Social Services: The New Imperative

William M. Rohe
Michael A. Stegman

Historically, liberals and conservatives have disagreed over the causes of poverty. Recently, however, their attitudes toward existing public programs to assist the poor have converged. Liberals and conservatives alike have criticized these programs for failing to move people out of poverty. More specifically, public housing and other programs such as Aid to Families with Dependent Children (AFDC) have been faulted for having built-in incentives that discourage recipients from increasing their incomes. The lack of coordination among the various social assistance programs has also been criticized. A person may receive job training, for example, but have to drop out because child care is unavailable. Overall, the current array of housing and social services has not effectively assisted poor families in attaining self-sufficiency.

An important goal of housing and social programs should be to help individuals and families achieve self-sufficiency. This notion is reflected in recent housing and social service legislation, including the Family Support Act of 1988 and the National Affordable Housing Act of 1990. These acts seek to restructure housing and social services to provide incentives and support for self-sufficiency, rather than simply maintaining recipients at a minimum standard of living.

The Need for Self-Sufficiency Programs

There are approximately 33.6 million people living below the poverty level in the United States. This represents about 13.5 percent of the total population. Although this rate is lower than the 1983 poverty rate of 15.2 percent, it remains substantially higher than the 11.4 percent rate recorded in 1978.[1] If transfer payments such as welfare and food stamps are subtracted from income, however, the poverty rate has showed remarkable stability throughout the seventies and eighties. The poverty rate was 21.3 percent in 1965, 19 percent in 1973, and 22.9 percent in 1984.[2] Thus, federal income maintenance programs have reduced poverty, but they do not seem to have reduced the need for public assistance, the ideal goal for public programs.

The characteristics of those in poverty has also changed over the last two decades. Over half of all poor families are now headed by women, and female-headed households with children are six times more likely to be poor than two-parent households. This suggests that the child care responsibilities of single-parent households can be a major obstacle to employment and self-sufficiency.[3] In addition, a combination of low wages, temporary unemployment, limited work hours and large families have kept many families from moving out of poverty. Close to half of the 6.8 million family heads who were poor in 1988 held jobs.

The poor today are also more likely to be concentrated in central cities. According to a report by the National Research Council, "better educated and more highly skilled residents, including minorities, are moving out of the central cities, leaving behind a concentration of disadvantaged residents isolated in poverty neighborhoods. This group of persistently poor central-city residents, called an 'underclass' by some, does not participate in expanding economic opportunities."[4] Moreover, there is a growing imbalance between the skills of low-income people and the requirements of central city employers, which contributes to the high rates of unemployment and poverty in central cities.[5]

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Strategies for Helping the Poor

Clearly, there is no shortage of programs designed to assist the poor. The total cost of government programs specifically designed to aid the poor was estimated at $165.2 billion in 1987. The federal government paid nearly three-fourths of this amount.[6] An analysis done by the Congressional Research Service, however, shows that anti-poverty funds have been shifted away from programs that offer a permanent solution to poverty. From 1968 to 1988, anti-poverty expenditures shifted from cash support and job training programs to the direct provision of food and housing.

In spite of many anti-poverty programs, poverty persists at unacceptably high levels. The structure of public assistance programs and the lack of coordination among them are partially to blame. A criticism of welfare programs has been that they undermine the incentives for work and breed dependence on public subsidies. Until recently, for example, AFDC and Medicaid were linked so that if recipients earned enough to no longer qualify for AFDC they also lost their Medicaid benefits. Since most of these people held jobs that did not include medical benefits, they either had to wager on staying healthy or pay a large part of their salary for medical coverage.

The fragmentation of service delivery has also severely limited the effectiveness of anti-poverty programs. Poor families often have multiple impediments to becoming self-sufficient.[7] These include lack of basic skills, lack of transportation options, poor housing quality, poor health and sometimes substance abuse problems. There is therefore a need for a coordinated package of services to achieve self-sufficiency. Federal and state governments finance more than seventy programs designed specifically for individuals with limited incomes. Additional programs are offered by local religious, philanthropic and other private organizations. These programs have different eligibility requirements, are administered by different agencies and require different application procedures. As a result, it becomes very difficult for the poor to obtain all the services needed to become self-sufficient.

Families receiving AFDC payments, for example, may still live in dilapidated or overcrowded housing or may not have the basic skills to find employment. In a recent study by Newman and Schnare, 30 percent of the 3.5 million families receiving AFDC were found to have multiple housing problems such as poor housing conditions and high housing costs. A full 83 percent had a high rent burden and 25 percent lived in substandard housing.[8] Moreover, limited housing choices frequently affect a family's ability to attain self-sufficiency by curtailing mobility and obstructing the pursuit of new jobs, education and improved social conditions. Housing conditions also affect the physical and mental health of individuals, and can indirectly influence an individual's job performance.

The Logic of Self-Sufficiency Programs

Self-sufficiency programs are designed to reduce the incentives to remain in public welfare programs. They provide poor, unemployed and under-employed households with a coordinated package of services designed to enable them to become self-sufficient. Individuals in poor families often need remedial education and job training to become self-sufficient. They may also need other support services. For example, they may need counselling to help develop a set of personal goals or child care that allows them to participate in training and employment activities. They may also need transportation assistance and decent housing.

Coordination of services is typically facilitated by boards or advisory committees composed of representatives from the area social service agencies, including the department of social services, the housing authority, employment and training department, and other public and non-profit service providers. These boards facilitate the delivery of a coordinated package of services and oversee the progress of the programs.

Self-sufficiency programs typically rely on case managers to assess the full range of services that participants need. Case managers help participants apply for services and act as advocates for them as they deal with various service agencies. Case managers also provide counselling and general encouragement throughout the training period and may follow-up after they have obtained a job. In some instances, the assessment of client needs result in the realization that new services are needed in a community, or that existing services must be expanded.

Experience with Self-Sufficiency Programs

The Department of Housing and Urban Development (HUD) has been a leader in sponsoring self-sufficiency programs. In 1984, HUD introduced Project Self-Sufficiency (PSS) as one of its Quality of Life Initiatives. This demonstration project provided an additional allocation of Section 8 certificates to communities that were willing to draw on both public and private sector resources to develop a comprehensive and coordinated program of job training, remedial education, child care, transportation and other services designed to break the cycle of poverty. HUD also provided technical assistance to the participating communities, but communities were expected to rely on other sources to pay for additional services.

In all, 155 communities participated in PSS. HUD provided the participants with approximately 10,000 Section 8 certificates, totaling nearly $48 million in contract authority.[9] An evaluation of the PSS demonstration was encouraging. Of the more than 9,928 single parents who entered the program, 42 percent completed it and either obtained full-time jobs with growth potential or enrolled in college degree programs.[10]

The Bush administration replaced Project Self-Sufficiency with Operation Bootstrap, which is virtually identical to its predecessor. On October 4, 1989, Jack Kemp, Secretary of Housing and Urban Development announced $85.8 million in awards to 61 housing authorities to implement Operation Bootstrap. This represents a total of 2,842 Section 8 certificates. Although HUD has commissioned an evaluation of this program, the results are not available at this time.

The Gonzales Affordable Housing Act, passed in late 1990, also creates several new self-sufficiency programs. Title V, Section 554 of that act authorizes the Family Self-Sufficiency (FSS) program. FSS is similar to PSS and Operation Bootstrap in that it seeks to promote self-sufficiency by providing those receiving housing subsidies with a comprehensive, coordinated package of social services. These services include family counselling, transportation assistance, day care, literacy and job training. Like earlier programs, it calls for the creation of a coordinating body composed of representatives from the public housing authority (PHA) and other local public and private social service agencies. It also calls for the development of an action plan to coordinate these services; however, no new funds are provided to pay for them.

In spite of many anti-poverty programs, poverty persists at unacceptable high levels. The structure of public assistance programs and the lack of coordination among them are partially to blame.

The FSS program is different from the earlier programs in several ways, however. Earlier programs were voluntary, whereas this program is mandatory for fiscal year 1993 and beyond. Specifically, local housing authorities must have self-sufficiency programs that accommodate the number of participants equal to the number of new assisted housing units provided by HUD. For example, if in 1993 HUD provides a city with fifty vouchers and fifty public housing units, they will have to accommodate 100 participants in a self-sufficiency program. Housing authorities that lack support for local services or administrative costs can be exempted from the program, however.

The second major difference is that participating families who receive Section 8 certificates or vouchers can lose their housing assistance if they do not follow through with the program. This provision does not apply to public housing residents, however. Each participant must sign a contract with the sponsoring housing authority that includes the support services provided to the family and the responsibilities of the program participants. These responsibilities include taking part in job training programs, seeking employment, and other activities that lead to self-sufficiency. Furthermore, each participating family must fulfill its obligation under the contract within five years. At the end of five years, or if the family cannot meet the responsibilities specified in the contract, the family loses its housing voucher or certificate. Extensions beyond five years can be granted for good cause.

A third difference is that the FSS program has an escrow account provision. This provision requires housing authorities to set up escrow accounts for participants with incomes below 80 percent of the area median. When a family enters the program, the base rent is set at 30 percent of its income. As income increases, the participant continues to pay 30 percent of household income, but the difference between the base rent and the new rent is put into an interest-bearing escrow account. A participating family may withdraw the funds from this account only after it no longer receives federal, state or other public housing assistance.

The other major self-sufficiency program authorized by the National Affordable Housing Act is the Public Housing Family Investment Centers program (Title V, Section 515). This is a competitive grant program that provides housing authorities with funds to remodel public housing developments or nearby buildings to accommodate resident training and support service programs. The grant funds can be used to pay for up to 15 percent of the cost of delivering these services and to hire service coordinators. This program, unlike the FSS program, provides at least limited funding for the services. In addition, any income received in job training or support service programs are not considered in calculating rent payments. Income earned in the first job following participation in the program is also excluded from rent calculation for an 18-month period. Unfortunately, the recent Veterans Administration, HUD and Independent Agencies Spending Bill did not fund this section of the act.

The 1990 Housing Act also changed how all rents for federally assisted housing are calculated. The act holds rent increases to a maximum of 10 percent each year for three years after a previously unemployed household member finds employment. This is to increase the incentive for unemployed assisted housing residents to find employment.

Charlotte's Gateway Housing Program

The Gateway Housing Program in Charlotte, NC, is a good example of a self-sufficiency program. It is one of the first programs of its type in the nation and served as a model for the FSS program.

The objective of the Gateway Housing program is to help very low-income families become socially and economically self-sufficient. The program was designed by local officials in Charlotte to enhance the labor market skills of participants so that they can become home owners and move out of public housing. This emphasis on home ownership is meant to provide a clear and desirable goal for program participants. Participants begin learning about qualifying for home ownership and the process of buying a home soon after they are accepted in the program.

The Charlotte Housing Authority (CHA) publicizes the program through newsletters and presentations at tenant council meetings. Families must earn less than $12,500 a year to qualify for the program. There is a separate program for families who earn more than $12,500 per year. Applicants go through a screening process that involves an initial interview with program staff, a reading and occupational preference test, and checks for criminal convictions, rent and credit history.

If a family is accepted, they enter into a mutually binding contract with the CHA. This contract specifies the services the housing authority and other city agencies will provide. These services can include remedial education, treatment for substance abuse, family and peer counseling, day care and job training. The contract, which is in the form of an addendum to the family's lease, also permits the CHA to terminate the lease if the family does not meet its responsibilities.

The program has a remedial stage and a transition stage. The remedial stage begins with a series of diagnostics designed to identify a participant's educational and vocational deficiencies. These tests, which are carried out by CHA staff and the city's Employment and Training Department, are used to identify individual barriers to self-sufficiency and to prepare a plan for overcoming them. This plan typically involves remedial education, day care assistance and job training. Education and job training are provided in many fields, including medical services, computer operations and automotive repair.

A participant must complete the remedial phase of the Gateway program in two years. CHA does not accept individuals it feels will need more than two years of remedial services. During the two-year period, a participant's maximum rent is frozen at the level he or she was paid when entering the program. Moreover, other needs-based benefits such as AFDC or Food Stamps remain constant, even though family income might improve. This provision was authorized by a special section of the Housing Act of 1987. It also required approval by the state and county divisions of social services. These provisions are designed to eliminate the disincentives associated with higher incomes and permit participants to accumulate sufficient income to stabilize their financial situation.

The transition stage is designed to further strengthen participants' employment skills and increase their incomes. Participants will also receive home ownership counseling, financial budgeting training, and other services to help them make the transition from public housing to home ownership. Participants can remain in the transitional stage of the program for up to five years but many are expected to graduate into their own homes within a shorter time period.

During the transition phase, a family in the Gateway Program spends 30 percent of its income for rent. CHA deposits the difference between actual rent payments and the operating expenses of the unit and complex in which the family lives into an escrow account that can be used to make a down payment on a house. As family income increases, so does its rent, but the rent increment accrues to the family's escrow account rather than to the housing authority.

At the completion of the transition phase, CHA helps the family find suitable housing on the private market. The accumulated savings from excess rent payments, in conjunction with mortgage assistance from the North Carolina Housing Finance Agency and the Charlotte Housing Partnership, assure the availability of affordable home ownership opportunities.

One of the extraordinary aspects of the Gateway housing program is the commitment that Charlotte's social service organizations have demonstrated to the program...It remains to be seen whether social service providers in other cities can cooperate as well as those in Charlotte.

Gateway is managed by one full-time staff member, who also acts as a case manager for program participants. The Office of Employment and Training provides staff to do the occupational testing. The Department of Social Services assigns additional case workers to each of the Gateway participants receiving AFDC. Child Care Resources, a local nonprofit organization, provides child care services.

Gateway's Effectiveness

As of October 1991, there were 85 participants in the Gateway program. The average incomes of those who had been in the program at least 18 months increased from $6,607 to $7,607. The average education level increased from 11.4 years to 12.2 years. The percentage of participants with full-time jobs remained stable at 37 percent, but the number with part-time jobs increased from 17 percent to 35 percent. Several families have moved through the program more quickly than anticipated and are now in the process of buying homes.

At the same time, 24 families have either dropped out or have been terminated from the program. The most frequent reason for termination is they did not live up to their agreements to participate in remedial activities. Several participants were dropped from the program because of drug involvement or other criminal behavior.

It is difficult for the housing authority staff to find public housing residents who are both interested in and qualified for the program. Out of 553 applicants, only 160 qualified. This number includes the 85 current participants, 41 applicants who were accepted but did not want to participate in the program, and those that graduated or withdrew from the program. The major reason for rejecting applicants was that it would require more than the two years of remedial education and training for them to qualify for jobs that pay at least $7 per hour. Many applicants did not have high school degrees and had very low reading levels.

Conclusions

It is too early to assess the full impacts of this program on its participants. Although this new approach to coordinating housing and social services is promising, there are several issues that deserve discussion. First, self-sufficiency programs are small and include a very small percentage of those who need assistance. Last year, HUD's Operation Bootstrap involved less than 3,000 families nationally. The Gateway program currently involves only 100 of the nearly 5,000 families in Charlotte's public housing.

Although the new housing act seeks to greatly expand these programs, expansion is limited by lack of funding for support services and program staff. Self-sufficiency programs provide very little new funding for carrying out these programs, and existing staff and funds are limited. Increased funding for these programs is necessary if they are to serve more than a handful of the families in need.

Self-sufficiency programs depend on cooperation among local service providers. One of the extraordinary aspects of the Gateway housing program is the commitment that Charlotte's social service organizations have demonstrated to the program. The Departments of Social Services, Employment and Training, and other organizations have altered their standard procedures and have dedicated staff and other organizational resources to the program. It remains to be seen whether social service providers in other cities can cooperate as well as those in Charlotte. A number of earlier attempts at coordinating services have been undermined by competition and conflict among local service providers.

The assumption behind self-sufficiency programs is that residents of public and subsidized housing are motivated to achieve self-sufficiency. The experience with the Gateway Housing Program suggests that this may not be the case for a large proportion of residents. The housing authority has found it very difficult to find 100 residents that are both interested in and qualified for the program. The program staff members suggest that many residents of public housing have given up on themselves. They lack the self-confidence and self-esteem to undertake educational and job training programs.

Given the limited funding for social services, concentrating services on families involved in self-sufficiency programs means that other needy families will not be served. Agencies can either distribute funds to all needy communities or target funds to one area, although this does not have to be an all or nothing decision. Some very basic social services (such as food assistance) can be offered to the widest group, while others (such as job training and day care assistance) can be targeted to those in self-sufficiency programs.

There is a compelling logic to concentrating services on a smaller group if this will lead to self-sufficiency. Rather than maintaining a state of poverty and dependence, self-sufficiency programs have the potential to move people out of poverty and off direct public assistance. As program participants become self-sufficient, others can take advantage of the coordinated services offered by these programs.

Finally, although these programs appear to have great potential, the history of attempts to assist the poor is littered with programs that had great potential. Data on the performance of self-sufficiency programs is still scant. We need to follow the progress of these programs carefully to assess their performance.

[Editor's note: The authors, with assistance from the Ford Foundation, are in the process of conducting an evaluation of Charlotte's Gateway housing program. Over the next several years, they will monitor the progress of the participants as they move through the program and will simultaneously follow a control group of residents who are not in the program. The authors hope that they can contribute to the development and possible expansion of the self-sufficiency programs.]

Notes

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Departmental News

Edward Bergman and Gunther Maier (Vienna University of Economics) completed a study of policy outcomes for the North Carolina Rural Economic Development Center (education and training, roads, entrepreneurs, capital investments, urban and rural populations, retirees, agriculture, government employment,telecommunications, etc.) that affected the economic development of North Carolina counties between 1980 and 1987. The main findings were prepared to run on STORYBOARD, an IBM-supported presentation medium. Additional publications are being prepared for release in professional and academic journals.

Bergman spent two weeks in June and July of 1991 interviewing university and public officials in Prague, Bratislava and Budapest to learn about activities underway regarding privatization of regional economies and probable impacts on the natural environment. The work was conducted in conjunction with USAID and Duke University's Center for Tropical Conservation as background to a proposal to investigate two transborder development options that bridge Czechoslovakian and Austrian regions.

Bergman organized the regional science and development track of the joint ACSP-AESOP conference in Oxford, England in July. Fifty papers and presentations were given by faculty from North American and European planning schools.

Through the UNC Institute of Economic Development, Bergman is working with Rick Carlisle, (DCRP alumnus) and Stuart Rosenfeld (DCRP adjunct faculty), on a Ford Foundation-supported project to design and propose a permanent center in the U.S. South for policy research. The center would organize and focus a wide variety of planning and policy researchers at universities and centers throughout the South as a permanent think-tank to help solve regional policy issues facing state and local officials. A key feature is the design of a research process that blends research scholarship provided by university faculty and the policy savvy of experienced professionals. The center would also cooperate with the Central European Regional Research Organization (CERRO) on comparative policy issues facing both parts of the world.

Raymond Burby, Edward Kaiser, Dale Roenigk (DCRP Ph.D. Student), Maureen Heraty (recent DCRP graduate now working with Washington, DC COG), and Robert Paterson (DCRP Ph.D. student) have recently completed an evaluation of local urban stormwater management in North Carolina. The study focuses on the issue of maintenance of stormwater control measures, and features interviews with stormwater managers in 88 North Carolina cities, field inspection of numerous stormwater control structures in four cities, and a Delphi survey of a panel of experts from North Carolina and elsewhere. The report is available through the Water Resources Research Institute, NCSU, Box 7912, 1131 Nat. Res. Bldg., Raleigh, NC 27695-7912, (919) 737-2815. The authors also hope to report the results at the spring meetings of the North Carolina chapter of the American Planning Association.

Glenn Cassidy and **Mike Luger** are currently in the second (and final) year of a study financed by Urban Mass Transit Administration on "Busways, Subways, and Tramways..." Cassidy and Luger are doing benefit-cost analyses of busway systems in Pittsburgh and Houston, and using the results to identify possible cities in the Southeast in which busways might be viable transit alternatives.

Cassidy is also working on a study of equity in education finance in North Carolina school districts.

Cassidy and Luger have applied to the U.S. Department of Transportation for another grant, to study transportation finance by state governments and the shortfalls that may arise from relying on gas taxes while gas consumption is falling.

David Godschalk has been appointed to the North Carolina Legislative Study Committee on Statewide Comprehensive Planning by Daniel Blue, Speaker of the North Carolina House. The committee is charged with exploring the potential for state growth management. It is directed to consider the programs and experiences of other states, in order to develop a state-mandated comprehensive planning program in which plans are prepared by local governments and coordinated at a regional and state level. It will make a final report to the 1993 General Assembly.

Harvey Goldstein, Suk-Chan Ko (a DCRP Ph.D. candidate) and William F. Little (Professor of Chemistry and Interim Provost) are conducting a study of the incidence of technology-based business start-ups and spin-offs in the Research Triangle region. They are particularly interested in the role of the area's three research universities, as well as other attributes of the regional "milieu" in entrepreneurs' decisions to start up or spin off companies in the Triangle, in contrast to other high-tech regions.

Emil Malizia is completing research sponsored by the Economic Development Authority of the U.S. Department of Commerce on economic diversity and employment stability. He is also Program Director for the Center for Accessible Housing at North Carolina State University. The Center is a five-year research and training program supported by the National Institute for Disabilities and Rehabilitation Research, U.S. Department of Education. Malizia is co-author of *Real Estate Development*, published in 1991 by the Urban Land Institute. Malizia is directing UNC's Basic Economic Development Course, being held February 24-28, 1992 at the Friday Center in Chapel Hill, NC.

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