



# Profitwise

## News and Views

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# Analyzing World Business Chicago's Plan For Economic Growth And Jobs: A Chicago Banker Roundtable Perspective

### **Bankruptcy in America:**

Where are we seven years  
after reform?

**A brief on emerging affordable  
rental housing trends in  
economically stressed Chicago  
communities**

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## News and Views

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# **Profitwise**

## **News and Views**

### **December 2012**

In this final *Profitwise News and Views (PNV)* edition of 2012, we focus on three distinct topics. Our lead article summarizes an engaging discussion on the World Business Chicago's Plan for Economic Growth and Jobs, co-convened by the Chicago Fed, the FDIC, and the OCC. Our second article is an update on two previous *PNV* articles looking at bankruptcy reforms since they became effective in 2005. Finally, we probe into recent and ongoing work to address the foreclosure crisis with a look at efforts to move vacant homes to rental status through bulk sales to private investors.

# Analyzing World Business Chicago's Plan For Economic Growth And Jobs: A Chicago Banker Roundtable Perspective

by Jason Keller

A roundtable, co-sponsored by the Federal Reserve Bank of Chicago, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), was held on July 9, 2012, to analyze and discuss World Business Chicago's Plan for Economic Growth and Jobs<sup>1</sup> (the Plan). The roundtable brought together nearly 50 local<sup>2</sup> bankers, regulators, and economic development practitioners to discuss the Plan's strengths, as well as barriers to success. This article summarizes the content shared by the participants and provides recommendations from the regulatory agencies on what financial institutions can do to further positively impact the Chicago region's strategy for economic growth.

The Plan, released in March of 2012, is the product of a cross-functional representative partnership to develop a coordinated approach to economic development that allows for the public and private sectors to better align their interests and actions. The Plan is divided into five chapters discussing the region's foundations for growth, the current local economy, the opportunities for success and the outline of the

institutional and regional structures that are needed to support this effort. The roundtable discussion, however, was focused on the third chapter, which identifies ten city and regional economic growth strategies as a platform for what the Plan defines as "contextualizing" and coordinating current efforts. The ten strategies, listed below, presuppose that Chicago is a "magnet" for the midwestern economy and a "global city," attracting international interest in businesses, goods, and ideas.<sup>3</sup>

- Become a leading hub of advanced manufacturing.
- Increase the region's attractiveness as a center for business services and headquarters.
- Become more competitive as a leading transportation and logistics hub.
- Make Chicago a premier destination for tourism and entertainment.
- Make Chicago a nationally leading exporter.
- Create demand-driven and targeted workforce development.

- Foster innovation and support entrepreneurship.
- Invest to create next-generation infrastructure.
- Develop and deploy neighborhood assets to align with regional economic growth.
- Create an environment in which businesses can flourish.

## Opening remarks and the regional economic forecast

After Alicia Williams – the Federal Reserve Bank of Chicago's vice president of the Community Development and Policies Studies division – linked the Plan to several internal efforts to foster local economic development, Rick Mattoon, a senior Reserve Bank economist and economic advisor, discussed the impact of the recent economic recession and recovery on Chicago and the surrounding region. Mattoon noted that although the United States has experienced some recent economic growth as a whole, the country still faces several challenges as a result of world economic pressures. Large bank

capital positions have improved and manufacturing is once again on the rise; however, weaker labor markets and stagnant or falling home prices remain national concerns. In closing, Mattoon suggested that even as the city of Chicago has underperformed for most of this current business cycle, recent economic indicators, such as the decreasing unemployment rate and strength in the Chicago Midwest Manufacturing Index,<sup>4</sup> are signs of positive momentum.

## The panel discussion

Moderated by Terry Mazany, president and CEO of The Chicago Community Trust, the panel was assembled to discuss several current and pending local initiatives in support of the Plan and highlight potential next steps to ensure future success. Panelists included MarySue Barrett, president of the Metropolitan Planning Council, Mary Culler, the director of Governmental Affairs at the Ford Motor Company, Karin Norington-Reaves, CEO of the Chicago Workforce Investment Council (the Council), and Ted Wysocki, president of the LEED Council.<sup>5</sup>

Mazany opened the discussion by providing some background information on how the Plan was generated through a comprehensive benchmarking analysis, beginning in 2007, comparing the Chicago region to other metropolitan cities, both nationally and internationally. Five drivers for economic growth were used in the analysis – identifying key economic clusters, human capital, innovation, entrepreneurship, physical and virtual infrastructure, and public and civic institutions.<sup>6</sup> Mazany illustrated the importance of the Chicago regional economy by quoting from the Plan: “...with 2010 gross regional product (GRP) of

approximately \$500 billion, the region ranks third among U.S. metro areas; if it were a country, it would have the 20<sup>th</sup> largest economy in the world.”<sup>7</sup> In closing, Mazany stressed that the Plan’s success depends on the further collaboration and the alignment of strategic resources. Strategy teams are being formed to begin addressing the Plan in more detail.

MarySue Barrett discussed the need to position the Chicago market globally by maximizing the opportunities for midwestern economic growth. Barrett also pointed out that fragmentation in government, the nonprofit sector, and private industry are potential barriers to success. To date, the Metropolitan Planning Council<sup>8</sup> has invested resources to build consensus and determine priorities for local transportation infrastructure, and encouraging investments in next generation infrastructure.

Mary Culler commented on Ford Motor Company’s<sup>9</sup> perspective on the Plan, as a large and advanced manufacturer, with a local presence. She warned that the competitive pressures the Chicago region is facing from other states, such as Ohio and Missouri, are increasing. While the region has been successful in promoting its intermodal transportation system as an engine for economic growth, this has led to increased congestion on some area roadways. Culler suggested that as large area manufacturers, such as the Ford Motor Company, continue to face economic pressures to reduce expenses, some might avoid the Chicago area completely in order to get their product to market faster and more efficiently. Culler also stressed the importance of public/private partnerships, as well as innovation, to local economic growth. Karen

Norington-Reaves added to the discussion by examining the potential for further collaboration between the city of Chicago and other agencies or intermediaries on area workforce development. The Council’s efforts directly correlate with the Plan’s emphasis on creating demand-driven targeted workforce development.<sup>10</sup> Norington-Reaves recommended that better integration among the city colleges, the Chicago Public School System, and the other school systems in Cook County would address the skills gap and reduce the unemployment rate.

Ted Wysocki rounded out the panel by discussing several barriers to the Plan’s success, including Chicago zoning laws, traffic congestion, the need for better targeted workforce development, and the lack of energy efficiency in Chicago’s aging infrastructure. City leaders have agreed that retrofitting existing buildings with “next generation” technologies would greatly save on costs, as well as generate jobs; however, additional policy initiatives and incentives are needed to train energy proficient auditors and installers. Wysocki also suggested that greater involvement by financial institutions in neighborhood reinvestment is needed to build quality affordable housing and spur local economic development. Wysocki closed his remarks by stressing the valued role of nonprofits in maximizing the Plan’s potential. In order for Chicago to realize its potential as a global city, leaders must work for business expansion and attraction to provide more jobs for local residents.

## Concluding remarks and next steps from the Community Affairs Officers' perspective

Through their opening and closing remarks, the respective Community Affairs Officers from the Federal Reserve Bank of Chicago, OCC, and the FDIC, stressed the benefit of local economic and community development activities and the impact they can have in preparing the local business and civic communities for future prosperity. Collectively, the regulators recognized the connections between the Community Reinvestment Act, the business of banking, and the general health of the economy, which was a primary motivator for the day's discussions. They agreed with the Plan that, with the right tools, Chicago has the ability to accelerate its economic growth by improving its neighborhoods and regional amenities. The primary tools for improvement include expanding technological and physical infrastructure, and better educating and training the regional work force. Bankers were encouraged to speak to their respective boards of directors about the Plan, and specifically the ten strategies, and discuss how they might become engaged and involved. World Business Chicago continues to solicit feedback and input into the Plan to ensure it serves the public interest. Further refinement and the identification of additional initiatives may arise, depending on the number and types of comments received. Local financial institutions should participate in this discussion. Financial institutions were encouraged to further collaborate with government, civic, labor, and other metropolitan leaders who have a vested interest in ensuring the region's future economic growth and competitiveness.

## Notes

- 1 The Plan can be found at <http://www.worldbusinesschicago.com/files/downloads/Plan-for-Economic-Growth-and-Jobs.pdf>.
- 2 The Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which comprises all of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin; however, this roundtable focused on those financial institutions with a physical presence in the Chicago-Naperville-Joliet, IL-IN-WI Metropolitan Statistical Area (MSA).
- 3 2012, A Plan for Economic Growth and Jobs, World Business Chicago, March, pp. 34-47.
- 4 See <http://www.chicagofed.org/webpages/publications/cfm/index.cfm>.
- 5 Effective June 21, 2012, the LEED Council rebranded itself as North Branch Works. See <http://www.leedcouncil.org> for additional information.
- 6 2012, A Plan for Economic Growth and Jobs, World Business Chicago, March, p. 14.
- 7 Ibid., p. 13.
- 8 See <http://www.metroplanning.org/index.html>.
- 9 See <http://www.ford.com>.
- 10 2012, A Plan for Economic Growth and Jobs, World Business Chicago, March, p. 42.

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# Bankruptcy in America: Where are we seven years after reform?

by Helen Mirza

## Introduction and background

While economic worries, including high unemployment and high rates of foreclosure, persist in America, one indicator that receives relatively little media attention is household bankruptcy. While bankruptcy, particularly Chapter 7 bankruptcy, offers a fresh financial start to the petitioner, certain types of obligations, such as child support, tax liens, and security interests in automobiles and homes, remain the responsibility of the petitioner (i.e., the person seeking bankruptcy protection). For the debt that is discharged, all efforts by creditors to recover or collect from the bankrupt party (outside the bankruptcy process) must cease. There is no ready source of data on the amount of debt discharged annually in bankruptcy proceedings.

As reported in past *Profitwise News and Views* articles (April 2006 and June 2009 editions), the bankruptcy statute underwent a significant and long-awaited amendment in October 2005 (Bankruptcy Abuse Prevention and Consumer Protection Act, aka the Bankruptcy Reform Act of 2005). While there were numerous, noteworthy changes to the statute, one of the most controversial changes was to the manner in which the petitioner qualified for either Chapter 7 or Chapter 13 relief. In Chapter 13, petitioners are required to enter into a three- to five-year repayment plan

for most of their debt. Obviously, most petitioners hope to be able to qualify for Chapter 7 and thus rid themselves permanently of almost all of their (unsecured) debt. In addition,

include the home, vehicle, tools of the petitioner's trade, clothing and other personal items. While bankruptcy is exclusively a federal remedy carried out in the federal court system,

**“My experience....is that the implementation of the means test penalizes financially prudent but economically disadvantaged debtors....while rewarding debtors that have significant long-term secured debt with a Chapter 7 discharge. Larger real estate mortgage payments and vehicle loans directly affect the bankruptcy consequences of two otherwise economically similar debtors by allowing the debtor with large amounts of secured debt to discharge unsecured debt, while debtors with similar incomes and modest secured obligations are required to pay a portion of their unsecured debt under Chapter 13.”**

**Catherine Molnar-Boncela, a Northwest Indiana attorney practitioner with the law firm of Gouveia and Associates of Merrillville, Indiana**

depending on the state in which the petitioner resides, the petitioner is entitled to keep a certain amount of property; these exempt items

the state of residence determines exemptions for property the petitioner can keep. The reforms of 2005 included limits on the practice commonly

## Non-business filings by state (Chapters 7 and 13)

	2007		2008		2009		2010		2011	
	total	% Ch. 13	total	% Ch. 13	total	% Ch. 13	total	% Ch. 13	total	% Ch. 13
<b>IA</b>	6,793	11%	7,783	9%	9,787	8%	8,845	9%	7,609	9%
<b>IL</b>	40,400	36%	54,534	31%	71,745	25%	80,437	24%	71,044	26%
<b>IN</b>	30,504	31%	38,457	29%	47,276	26%	46,375	26%	38,601	26%
<b>MI</b>	44,985	29%	53,641	21%	67,251	16%	66,693	15%	56,221	16%
<b>WI</b>	15,432	25%	20,790	22%	26,966	19%	29,476	19%	26,501	22%

**Source:** American Bankruptcy Institute.

known as “forum shopping,” where petitioners tried to pick their state of residence when filing bankruptcy, tending (collectively) toward those with the most exemptions. Certain states, including Texas and Florida, had notoriously generous home exemptions. The ability to “forum shop” for exemptions was greatly restricted by the 2005 reforms.

### Potential unintended consequences

Another key issue was addressed by reform. Prior to 2005, the creditor community held that many borrowers who filed for Chapter 7 should have filed for Chapter 13, which, as noted, provides less forbearance and forgiveness to borrowers. Many Chapter 7 petitioners, they contended, plainly had the ability to repay some or all of their debt under a repayment plan. Attorneys representing the petitioner have always had the responsibility to determine the true financial status of their client and to choose the right chapter for their circumstances, but many creditors believed that most attorneys simply filed for Chapter 7, because that was the wish of the petitioner.

While some private attorneys disagreed, the 2005 reforms nonetheless mandated a means test requiring petitioners to divulge specific financial data to determine eligibility for Chapter 7, though petitioners with income below the (relevant) state median are exempt, and automatically qualify for Chapter 7. Petitioners who do not qualify based on the outcome of this test must file for Chapter 13 or withdraw the filing. Many attorneys report that this test has not significantly changed the percentage of people forced to switch from Chapter 7 to 13 or to withdraw their filing.

Various factors impact the outcome of the means test in regard to filing status. First, financial information required by the test can be difficult to assemble and verify. Second, extenuating circumstances linked to a petitioner can cause a judge to set aside the outcome of the means test. From a different perspective, some attorneys have pointed out that the test seems to disfavor the most financially responsible petitioners, who purchased cars and homes within their budgets, as opposed to ones they were unable to afford from the start. The test measures the ratio between the amounts of debt an individual has to their income.

If it is very high, the petitioner is more likely to qualify to file Chapter 7. If it is lower, he or she is more likely to be forced into a repayment plan under Chapter 13. To some extent, petitioners who have lived more modestly and incurred less debt are the ones forced into Chapter 13 even if their need to file bankruptcy stems from an event not in their control, such as prolonged illness of a family member, sudden job loss, or support of adult children who have returned home. Some petitioners with higher debt to income file for bankruptcy due to a pattern of overspending.

The chart above shows over a five-year period, 2007-2011, the number of (non-business) combined Chapter 7 and 13 filings for each of the five states in the Seventh Federal Reserve District: Illinois, Indiana, Iowa, Michigan, and Wisconsin.<sup>1</sup> and the percentage of filings annually under Chapter 13.<sup>2</sup> Among Seventh District states, there is no clear pattern that the means test (or any other factor) has increased the number of Chapter 13 filings in relation to Chapter 7 filings. The question arises as to whether the test is having its intended effect, as well as whether it is having an unintended effect on borrowers with less (secured and sometimes overall) debt in relation to their income. The test does not provide for a means to determine the origin



of the petitioner’s financial distress—whether from a sudden, unanticipated event, such as an injury resulting in job loss, or from a history of incurring unaffordable debt. However, the origin and particular circumstances may, as noted, cause a particular judge to allow a Chapter 7 filing to go forward, even if the petitioner fails the test.

## Other changes to the Bankruptcy Code

There were many other changes resulting from the 2005 reforms, such as pre-qualification counseling; changes to the “cram down” provisions, which resulted in vehicles being written down to market value regardless of the amount owing; the elevation of child support payments in obligation priority; and a \$1 million cap on the value of exempt IRAs. However, unlike the means test, little has been written regarding the ramifications and/or outcomes of these changes.

## Summary

The most noteworthy change in the 2005 legislation, and the one about which much has been written, particularly by practicing attorneys, is the means test. Based on filing data and anecdotal reports, the means test may have had little impact in addressing abuses of Chapter 7. The 2007-2011 data indicate that those filing bankruptcy in Seventh District states have not been moved into, by way of means testing or otherwise, Chapter 13. In fact, Chapter 13 filings as a percentage of all non-business filings have trended down over the last five years, significantly so (between 5 and 13 percentage points) in Indiana, Illinois, and Michigan. Anecdotal accounts suggest that those forced by the test into Chapter 13 are sometimes not in bankruptcy due to irresponsible spending and use of credit, but due to legitimate hardship beyond their control.

Based on observable data, it is unclear that the 2005 reforms leading to stricter standards to obtain Chapter 7 relief had the desired outcome. Nevertheless, there has been little call for further revisions or refinements to the statute.

## Notes

- 1 The Seventh Federal Reserve District comprises (roughly) the northern two-thirds of the states of Indiana and Illinois, the Lower Peninsula of Michigan, the southern two-thirds of Wisconsin, and the state of Iowa. The data cover these states in their entirety, however.
- 2 Note that the chart does not include data on withdrawals, terminations, or transfers to chapters other than 7 or 13 subsequent to the original filing.

### **Comparison of debtor households with similar incomes:**

*The potentially unintended consequences of the means test can be illustrated by two hypothetical, middle class households with similar annual income. The first family owns two older vehicles with no debt and rents (a house). The second family owns a home with a monthly mortgage payment, and two newer cars with financing – both secured debts. Given similar levels of unsecured debt stemming from a combination of credit cards and any other consumer debts, an incident, such as a medical event not covered by insurance or other financial hardship, could trigger the need for either household to file bankruptcy. The first may have to pay a substantial amount to unsecured creditors under a Chapter 13 repayment plan, as they have no secured debts, and thereby would more likely not pass the means test. The second family, whose payment capacity is already stretched due to secured debts, would likely pass the means test, file Chapter 7, and ultimately owe nothing for unsecured debt.*

**Helen Mirza** is a community development director in the Community Development and Policy Studies division at the Federal Reserve Bank of Chicago.

# A brief on emerging affordable rental housing trends in economically stressed Chicago communities

by Michael V. Berry

For decades, nonprofit housing and consumer-focused organizations have worked in low- and moderate-income (LMI) areas to address improvident mortgage lending practices that have led to high rates of vacancy and unstable neighborhoods. Questionable lending is not a new problem in LMI areas, in short, but the pace of this lending in LMI areas increased as the last decade's housing bubble inflated. Many unsound lending practices (including failure to prevent fraudulent use of primary residence mortgages to finance investment property<sup>1</sup>) spread to mainstream housing markets in the first half of the 2000s, and ultimately led to an unprecedented wave of foreclosures and an economic crisis. But like all economic downturns, the crisis hit LMI areas the hardest, and they, as always, look to be the slowest to recover. The foreclosure crisis has changed the housing landscape in Chicago, claiming many of the city's smaller rental buildings, and thereby much of the affordable rental housing stock in communities that were economically struggling even before the crisis.

In January 2012, the Board of Governors (BOG) of the Federal Reserve System issued to the Congressional Committee on Banking, Housing, and Urban Affairs a white paper entitled, "The U.S. Housing Market: Current Conditions and Policy Considerations." The white paper characterizes

foreclosures as "dead weight losses," where costs incurred by borrower, lender, and community, "including the neglect and deterioration of properties that often sit vacant for months (or even years) and the associated negative effects on neighborhoods," benefit no one. Lenders that take back homes through foreclosure end up with "real estate owned" (REO), which can be very costly to maintain. The bursting of the housing bubble ultimately resulted in the loss of roughly \$7 trillion in home equity nationally, the BOG paper estimates. But unlike LMI markets, in otherwise healthier housing markets – those proximate to employment centers, public assets including quality public schools, hospitals, and transit lines – foreclosed homes seldom remain vacant long. If they do, local code enforcement ensures that they do not fall into disrepair.

The out-sized loss of U.S. home equity wealth also impacted consumer spending, particularly among the middle class, for whom home equity represents the majority of household wealth. Alarming, the paper estimated the national level of in-process foreclosures, often referred to as the "shadow inventory" of foreclosures, at four times the REO inventory.

Complicating and impeding the federal government interventions, such as the Home Affordable Refinance Program (HARP) and Home Affordable

Modification Program (HAMP), as well as private sector efforts to modify or refinance loans, is a cross-section of policy, economic, and environmental factors. These factors include regulatory pressures on banks to diversify and/or shrink lending portfolios to control risk, falling real estate values, and widespread un- and underemployment. The crisis also left millions of borrowers with loans that exceeded the value of their home, or "under water," further limiting refinancing, modification, or sale opportunities for home owners unable to afford their payments. Moreover, some mortgage servicer agreements (ostensibly designed when real estate values were increasing rapidly), incent servicers to foreclose on defaulted borrowers instead of modifying loans.

The main purpose of the Fed white paper was to summarize the state of the housing market and lay out potential policy steps and their relative merits and opportunity costs. Constrained credit and overall economic conditions have pushed former home owners and potential first time buyers toward rental housing, creating new market stresses for rental housing and affordable rental housing in particular. Among the key policy alternatives discussed in the paper was a strategy to convert bank/lender real estate acquired through foreclosures (REO) to rental housing through bulk sales to private investors.

While management of scattered site rental housing presents difficulties in any market, some issues are amplified with LMI renters, who experience job loss and other negative economic impacts more frequently. Also, property condition and maintenance present greater challenges, particularly for buildings that have been vacant for some period. Attention to and maintenance of vacant property varies to a large degree by income demographics, meaning that wealthier communities do not allow blight to take hold as it does in LMI areas. Although the report did not focus on community development issues or lower income areas in particular, it did include cautionary language on property management, rehabilitation, and upkeep practices among potential bulk purchasers of (mostly) detached homes from government sponsored enterprise (GSE) REO portfolios. These concerns have been echoed by community development practitioners in Chicago. The report even suggests that, to the extent investors purchase buildings in economically struggling communities, they might engage established nonprofit housing organizations with ties to those particular communities to assist with property management.

### **Real estate owned initiative**

On February 1, 2012, the Federal Housing Finance Agency (FHFA), the agency with principal oversight responsibilities for, and that is conservator of the GSEs, Fannie Mae and Freddie Mac, launched a pilot program, the “Real Estate Owned Initiative,” to address the growing inventory of REO by these two organizations stemming from mortgage defaults and foreclosures. The Fed white paper noted that, given the size of their REO portfolios and market, the GSEs impact the broader housing market well beyond their own portfolios, and that to begin to impact the oversupply of homes and slow absorption, a rental program involving

private investors is a viable, though not a simple option. Notably, Chicago is one of the markets hardest hit by the foreclosure crisis, and has a large REO inventory; a handful of private organizations have expressed interest in this inventory.

According to data compiled by the Institute for Housing Studies at (Chicago’s) DePaul University, about 40 percent of Chicago’s rental housing stock is in two- to four-unit buildings, and the proportion is higher in low-income areas. For mortgage underwriting purposes (under normal market conditions), owner-occupied housing of this type can be financed with a conventional first mortgage saleable in the secondary market, while buildings with five or more units usually require portfolio loans. Much of the former was financed or refinanced with high-cost, subprime mortgages during the bubble, and much was lost to foreclosure. Nonprofit housing groups and even local governments express concerns like those noted in the Fed white paper about the ramifications for LMI areas, mixed with a degree of cautious optimism that the FHFA’s Real Estate Owned Initiative (“REO to Rental” commonly) represents a partial fix to the one- to four-unit housing lost to foreclosure.

Other research supports the underlying idea that moving single family (one- to four-unit buildings) to rental status may be a viable strategy. A February 2009 paper from the Joint Center for Housing Studies (JCHS) at Harvard, which was also summarized in a Federal Reserve System publication on REO disposition strategies,<sup>2</sup> identified three basic types of housing markets: “hot,” “warm,” and “cold.” In hot markets, there is little need for intervention, as there are generally ready buyers. Warm markets are those with varying stable areas, where rental or for sale strategies may succeed. Cold markets, conversely, have no buyers typically, and while a rental

strategy may work, land banking or demolition/greening may be required. Where a community development corporation (CDC) owns and manages rental housing as part of a remediation strategy (for-profit strategies were not covered), the paper stresses the importance of both pursuing this strategy in relatively stable areas, and proximity of rental houses to one another and/or multifamily housing managed by the CDC. Ed Jacob, the executive director of Neighborhood Housing Services (NHS) of Chicago, recently commented in a Chicago Tribune article about a winning bidder<sup>3</sup> for 94 Chicago area REOs (though his comment referred to the FHFA initiative more broadly): “The rhetoric is all good, but I’m not convinced that all the players are going to have the property management part in place.” NHS hosted a forum in May to discuss the prospects for REO conversion to rental housing, including roles for nonprofit organizations and smaller investors.<sup>4</sup> The FHFA underscores the vetting process for investors, but it is too early in the program to make any tangible observations about success in LMI communities.

Since the announcement of the program, uptake nationwide has been limited. In the Fed’s Seventh District,<sup>5</sup> as of late October, there has been only the transaction noted above, the same October 3 Chicago Tribune article reports. A New York based firm, Cogsville Group, was the buyer of the 94 REO properties, but the organization, according to several published reports, eventually intends to purchase approximately 3,000 REO properties in the region. The transaction is structured to have a 90 percent share of rental revenue flow to the GSE as the principal form of payment, which reduces after a given amount is received by the GSE, but the investor must make an initial (and substantial) cash payment. The investor also incurs ongoing fixed costs, and must keep the properties as rentals for a specified number of years.

Concerns about the supply of affordable rental housing are not confined to the one- to four-unit inventory addressed by the FHFA initiative. While urban housing agencies have developed scattered site and multifamily housing for many decades, much of the stock of affordable rental housing in Chicago is in five- to 50-unit buildings, typically owned by smaller, private investors, often referred to as “mom and pop” owners, and often representing their family business and livelihood, according to Community Investment Corporation (CIC) Executive Director Jack Markowski, a former housing commissioner for the city of Chicago. CIC is a nonprofit affordable rental housing lender in Chicago, one of the largest in the nation. While acknowledging the continued commitment of bank investors to CIC’s roughly \$400 million loan pool, Markowski noted that CIC had essentially no current direct competition from mainstream banking institutions for loans to owners or prospective buyers of affordable rental properties, whereas CIC, prior to the crisis, commonly did. He estimates that CIC’s loan pool will be fully specified, absent any new interest in the (five- to 50-unit) market, within two years.

## Ongoing efforts

The Federal Reserve Bank of Chicago, the Chicago Community Trust, and NHS formed the Regional Home Ownership Preservation Initiative (RHOP) in 2008. RHOP now comprises many dedicated organizations working diligently to stabilize the region’s housing markets hardest hit by the foreclosure crisis. The RHOP Web site<sup>6</sup> is managed by the Woodstock Institute, which is also tracking the progress of RHOP work on various fronts, and convening periodic reporting and planning sessions. An all-day forum focused on single family rental housing, organized by RHOP participating organizations, will take place at the Chicago Fed on January 30, 2013.

## Notes

- 1 See the New York Fed paper, “Real Estate Investors, the Leverage Cycle, and the Housing Market Crisis,” at [http://newyorkfed.org/research/staff\\_reports/sr514.pdf](http://newyorkfed.org/research/staff_reports/sr514.pdf).
- 2 See the publication comprising 17 articles on vacancy remediation and REO disposition strategies at [http://www.federalreserve.gov/newsevents/conferences/reo\\_publication.htm](http://www.federalreserve.gov/newsevents/conferences/reo_publication.htm).
- 3 A summary of the transaction between Fannie Mae and the Cogsville Group is available at [http://homepath-activedt.netdna-ssl.com/content/pdf/structuredsales/SFR\\_2012-1\\_Chicago/SFR\\_2012-1\\_Chicago\\_Transaction\\_Summary\\_9-27-12.pdf](http://homepath-activedt.netdna-ssl.com/content/pdf/structuredsales/SFR_2012-1_Chicago/SFR_2012-1_Chicago_Transaction_Summary_9-27-12.pdf).
- 4 A summary of the NHS forum is available at [http://www.nhschicago.org/images/uploads/news/NHS%20REO%20to%20Rental%20Forum%20Summary\(1\).pdf](http://www.nhschicago.org/images/uploads/news/NHS%20REO%20to%20Rental%20Forum%20Summary(1).pdf).
- 5 The Seventh Federal Reserve District comprises the state of Iowa, the Lower Peninsula of Michigan, the (roughly) southern two-thirds of Wisconsin, and northern two-thirds of the states of Illinois and Indiana.
- 6 For information on RHOP related research, and ongoing implementation efforts, visit <http://www.regionalhopi.org>.

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**Michael V. Berry** is the director of policy studies in the Community Development and Policy Studies division of the Federal Reserve Bank of Chicago. He is also the managing editor of *Profitwise News and Views*.

# Forum: Single-Family Rental Housing: Managing the Next Step of the Foreclosure Crisis

Regional HOPI, HOPI, and CMAP Housing Committee

Wednesday, January 30, 2013, from 10:00 a.m. to 4:30 p.m. (CST)

Chicago, IL

As a result of the foreclosure crisis and increasing demand for rental housing throughout the Chicagoland region, many more single-family homes are finding their way into the rental market. For many investors and municipalities in the region, managing single-family rental options on a large scale is a first-time effort with many unanswered questions.

Municipalities and investors are invited to a discussion on how to ensure this growing number of single family rental homes continue to be an answer, not a burden, for municipalities and investors. We are pleased to announce that the keynote speaker will be Alan Mallach, a renowned expert on vacant buildings and affordable housing at the Brookings Institution and the Federal Reserve Bank of Philadelphia.

More details to follow. Please save the date.

This event is co-hosted by RHOPI, HOPI, and CMAP's Housing Committee, and is made possible by The Chicago Community Trust.

Location:

Federal Reserve Bank of Chicago  
230 South La Salle Street  
Chicago, IL 60604

Wednesday, January 30, 2013, from 10:00 a.m. to 4:30 p.m. (CST)

For more information, please contact Katie Buitrago at [kbuitrago@woodstockinst.org](mailto:kbuitrago@woodstockinst.org) or 312-368-0310.

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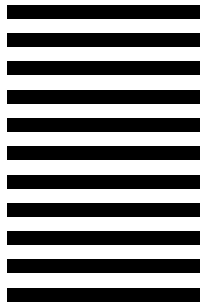
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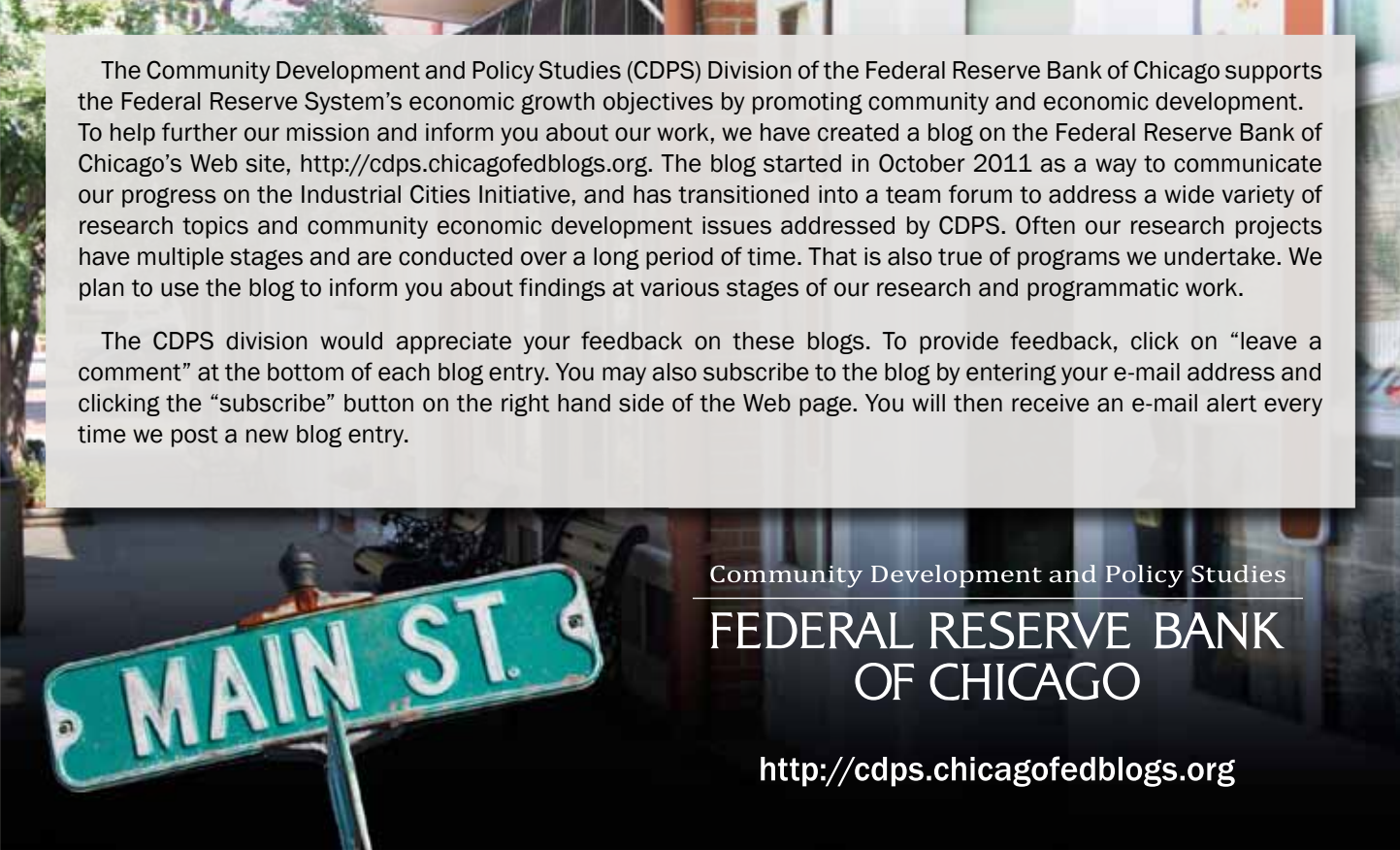
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The Community Development and Policy Studies (CDPS) Division of the Federal Reserve Bank of Chicago supports the Federal Reserve System's economic growth objectives by promoting community and economic development. To help further our mission and inform you about our work, we have created a blog on the Federal Reserve Bank of Chicago's Web site, <http://cdps.chicagofedblogs.org>. The blog started in October 2011 as a way to communicate our progress on the Industrial Cities Initiative, and has transitioned into a team forum to address a wide variety of research topics and community economic development issues addressed by CDPS. Often our research projects have multiple stages and are conducted over a long period of time. That is also true of programs we undertake. We plan to use the blog to inform you about findings at various stages of our research and programmatic work.

The CDPS division would appreciate your feedback on these blogs. To provide feedback, click on "leave a comment" at the bottom of each blog entry. You may also subscribe to the blog by entering your e-mail address and clicking the "subscribe" button on the right hand side of the Web page. You will then receive an e-mail alert every time we post a new blog entry.

Community Development and Policy Studies

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