

Home lending in low- and moderate-income neighborhoods is on the rise, prompting change

As little Catalina and Anthony grew, the townhouse the Melgoza family had been renting for the past five years was starting to feel cramped. And space would be even more precious when baby Diego arrived.

So after living all their adult lives as tenants, Hugo and Sarah Melgoza bought their first house, joining a growing number of recent homebuyers on a newly revitalized block in what had been a deteriorating neighborhood in urban Kansas City, Kan.

“We were tired of wasting money (renting),” Hugo says, “and we wanted a big yard for our kids to play in.”

An area nonprofit helped the Melgozas with financing as part of its efforts to increase homeownership in the low- and moderate-income neighborhoods into which it is breathing new life.

“We love it,” Sarah says of their new lives as homeowners.

The Melgozas aren’t alone in dreaming

of homeownership—or achieving that goal. Neighborhoods, too, are reaping the benefits.

Since the early 1990s, home financing in low- and moderate-income areas within the Kansas City metro has increased notably, say Jim Harvey and Ken Spong, policy economists at the Federal Reserve Bank of Kansas City.

This heightened home financing can be attributed to many different factors, including an overall strong economy, falling interest rates, financing innovations, new regulations and special lending programs.

Harvey and Spong recently researched a variety of demographic, housing and other variables to study possible relationships between increased home lending and changes in neighborhood conditions throughout the metro, which includes 15 counties in both Kansas and Missouri.

“For homebuyers and home lenders, increased lending has several implications,” Harvey says. “This stability in many lower-income neighborhoods encourages more

A home of our OWN



PHOTO BY SCOTT INDERMAUR

households to become homeowners and will provide more support for those that already are.”

Their research shows there are many facets that may be affected by increased lending, such as new construction and reduced crime, but home financing appeared to be most closely related to homeownership rates and home values.

“The availability of credit,” Spong says, “changes neighborhood conditions.”

Overview

To measure the effects of home financing from 1990 to 2000, Harvey and Spong first assessed demographic and housing conditions at the beginning of the decade. Their research included income levels, home values, homeownership rates, new construction and vacant properties. Overall, there were a number of areas where low- and moderate-income neighborhoods lagged in 1990.

“These characteristics raised the question of whether such neighborhoods will continue to trail behind others, or will be able to show noticeable improvement,” Harvey says.

In most cases, it was the latter. And results suggest housing finance played a role in supporting improvement.

During this period, home-purchase lending in low- and moderate-income neighborhoods grew at a faster pace than across the rest of the Kansas City metro area. Through the 1990s, there were significant changes in home lending trends, resulting from strong economic conditions, technological innovation, regulatory and legislative changes, and an increased role for special lending programs.

“As a result of these factors coming together,” Harvey says, “home financing became more accessible for low- and moderate-income homebuyers.”

Two economic trends may be particularly important: The longest period of uninterrupted economic growth took place in this country between 1991 and 2001, providing many



THE MELGOZA FAMILY purchased a home with help from City Vision Ministries, a nonprofit in Kansas City, Kan. Overall increased lending in recent years is the result of many factors, including these special finance programs, as well as declining interest rates and technological innovation.

lower-income households employment—and optimism—to buy homes. And at this same time, mortgage interest rates declined substantially.

“The level of borrowing became associated with much lower mortgage payments, providing another incentive for homeownership,” Harvey says.

Technological innovation also may have made some of the greatest contributions to lower-income home lending. Improved data collection and processing provided lenders with better information on prospective borrowers



and their neighborhoods, in turn reducing the risk of lending and lowering the cost.

Additionally, there have been a number of programs instituted during the past few years to aid first-time and lower-income buyers.

Alice Brentano, a Kansas City real estate consultant with Keller Williams Realty, has noticed an increase in a certain clientele as homeownership rates in general have grown. She's assisting more young, first-time homebuyers—something she attributes to homeownership education; employment to support ownership; buyer assistance programs; and, above all, more financing.

“Increased availability of home lending provides an opportunity for many more people to achieve the American dream of owning their own home,” Brentano says.

This, Harvey and Spang say, leads to measurable benefits for families and the neighborhoods where they're buying homes.

Strengthening communities

Nearly 10 years ago, when Stephanie Jackson was finalizing her divorce, coping with the death of her twin brother and starting a new job, it was comforting to live with her parents in the house where she was raised. But Jackson knew she couldn't stay for long. She wanted more for her young daughter.

Jackson wanted Kiara to have a home of her own.

With help from City Vision Ministries, Jackson purchased a small, two-story home in a Kansas City, Kan., neighborhood nearby. Otherwise, financing the home would not have been possible, she says.

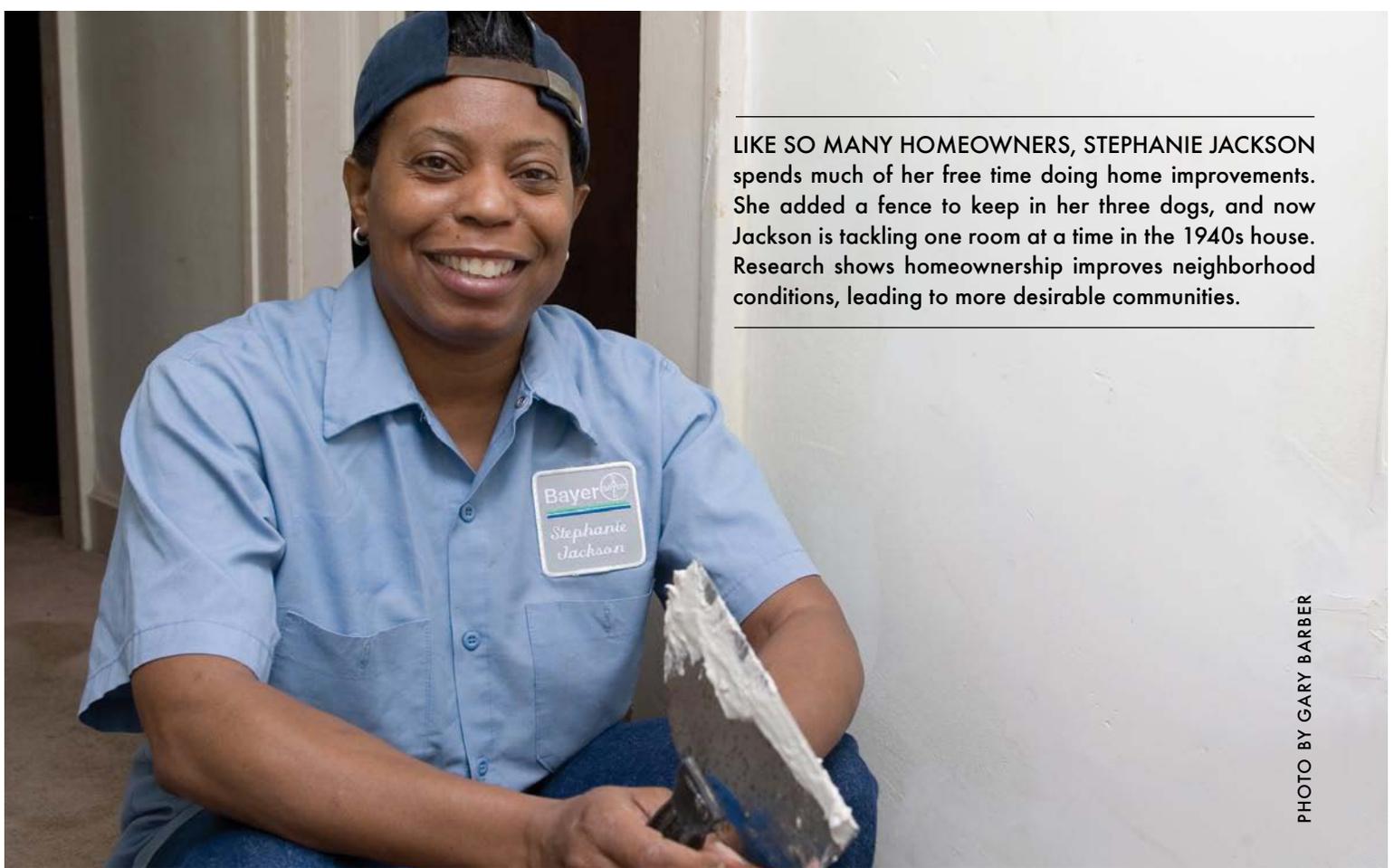
“When I moved in, I said, ‘This is a dream come true,’” Jackson, now 44, remembers.

Owning a home is important to Jackson for several reasons, such as family stability and the pride that goes along with being a homeowner. But, more so, Jackson is building a secure future.

“The equity in that home—I see that as an asset,” Jackson says, adding that these financial lessons will be passed on to Kiara, 16. “I'm hoping she does the same thing. It will be an asset to her.”

Homeownership is highly beneficial, beyond putting a roof over a family's head, says Julie Riddle of The Family Conservancy, a Kansas City, Mo., nonprofit that administers programs to help families build assets. It can lead to increased financial knowledge as well as continued asset building, overlapping into higher education or entrepreneurship.

The positive effects also can be seen in the neighborhoods themselves. Those who own their residences are invested in their communities emotionally (garnering the status of a homeowner and planting family roots) as well as physically (vandalism, litter, theft and petty crimes are often less prevalent, as are property blight and abandonment). This makes for more desirable communities, say both Riddle and Brentano.



LIKE SO MANY HOMEOWNERS, STEPHANIE JACKSON spends much of her free time doing home improvements. She added a fence to keep in her three dogs, and now Jackson is tackling one room at a time in the 1940s house. Research shows homeownership improves neighborhood conditions, leading to more desirable communities.

PHOTO BY GARY BARBER

“Most homeowners take more pride in their homes and their neighborhoods than those who rent,” Brentano says. “Homeownership contributes to people living in their homes longer and being more active in their community.”

This is true for Jackson—and her neighbors. Now they’re invested in their homes beyond the monthly mortgage, and as a result, they live in a desirable community, just as City Vision Ministries foresaw when it began its mortgage assistance program.

Before Jackson realized financing would be available to her, she could only drive hopefully through the neighborhood that encompasses her New Jersey Avenue residence.

“I used to say, ‘I’m gonna get me a house there.’”

Now she simply says, “I love this home.”

Measured progress: 1990-2000

To gauge broad changes in neighborhood conditions, like Jackson’s, Harvey and Spong examined how lending varied from one

census tract to another and whether lending levels may have contributed to observed changes in neighborhood conditions.

Their research shows many areas may be affected by increased lending, but home financing was associated most directly with changing homeownership rates and home values.

Among Kansas City’s low- and moderate-income neighborhoods, the areas with the highest rates of lending also showed the most noticeable improvements during the last decade, suggesting a higher rate of home purchase lending may have helped to improve housing conditions and attract homebuyers.

The low- and moderate-income tracts that received the most lending typically began with more favorable demographics in terms of income levels (fewer people in poverty and more households), and they continued to maintain or extend those advantages. While these results suggest a positive influence from home lending, they also may imply that lenders are more willing to provide financing in the

neighborhoods already in the best condition.

Overall, home lending grew at a faster pace in low- and moderate-income neighborhoods than across the rest of the metro area during the 1990s. This increased lending undoubtedly helped first-time homebuyers, and it may also be a sign that more active and liquid real estate markets are developing in lower-income neighborhoods.

Fannie Mae, a national organization with a mission to expand homeownership, partners with mortgage lenders to serve low- and moderate-income borrowers. Spokesperson Alfred King says recent recognition that this demographic of would-be homebuyers has long been underserved may have helped change lenders' approach to granting credit to low-income households.

"Having lenders willing to come into these areas is definitely important" to neighborhood improvement, King says, adding as lenders have expanded their markets to include low-income home loans, housing needs are being addressed. Meanwhile, lenders now view these neighborhoods as viable investments.

In the rapidly growing real estate market of the 1990s, lower-income neighborhoods in Kansas City more than held their own, and this, say Harvey and Spong, indicates neighborhood progress.

income

By definition, low- and moderate-income neighborhoods, when compared to other neighborhoods, will be made up of households with less income to meet their housing needs.

This characteristic remained true throughout the 1990s, with median income levels in Kansas City's lower-income neighborhoods staying at about 57 percent of the metrowide medium income level in both 1990 and 2000.

This income stability does indicate that median income levels in low- and moderate-income neighborhoods at least kept up with the general growth in incomes across the metropolitan area. In addition, a moderate decline

occurred in the portion of the population below the poverty level in lower-income neighborhoods during the 1990s, which suggests these neighborhoods did benefit from matching the metrowide income trends.

home values

"Rising home prices also provide a positive sign that lending in lower-income neighborhoods can be undertaken with the same confidence and collateral protection as in other neighborhoods," Spong says. "It further indicates a positive influence from the lending that has taken place and offers proof that enough lenders are becoming interested in lower-income neighborhoods to support the existing stock of homes there."

Harvey and Spong's research found a significant increase (45.6 percent) in the median value of homes in low- and moderate-income neighborhoods during the 1990-2000 time span. This increase, which was similar to the metrowide average, implies low- and moderate-income neighborhoods may have reversed some previous signs of deterioration.

These increases in values also indicate housing in low- and moderate-income neighborhoods was just as good of an investment during the '90s as in other parts of the metro area—something lenders have recognized as well.

"Increased lending does stabilize and increase home values," says Brentano, the real estate consultant. "If more people are able to get loans, there is more of a demand for homes. An increase in demand most likely would increase the value."

vacant property and construction

Another indicator of neighborhood attractiveness and housing conditions is vacant property rates.

Although vacant property was more common in low- and moderate-income

neighborhoods than in other Kansas City neighborhoods, the vacancy rate in these lower-income neighborhoods declined from 15.3 percent in 1990 to 13.8 percent in 2000. This suggests a successful effort had begun to clean up neighborhoods and restore or tear down deteriorated properties.

The greatest rate declines generally occurred in neighborhoods with the higher rates of home lending, which implies conditions may be improving the most in those neighborhoods with the best access to credit.

Building permits are a “vote of confidence”—a sign of new and significant investment—and provide a perspective on which neighborhoods the builders, lenders and buyers regard as attractive with favorable prospects, Harvey says.

New-home construction was rare in low- and moderate-income neighborhoods during the early 1990s. However, in later periods Harvey and Spong found a substantial increase in the number of building permits issued. This increase, consequently, implies these neighborhoods are becoming more attractive for housing investment.

City Vision Ministries has developed hundreds of new and rehabilitated homes in its 15 years of undoing absentee ownership and property deterioration that plague urban neighborhoods of Kansas City, Kan.

Capitalizing on available land, the nonprofit’s mission is to improve communities at the neighborhood level while in turn benefiting the families who live there, says executive director John Harvey.

crime

Crime is another possible indicator of neighborhood conditions, Harvey and Spong say. The rate of crimes against people in low- and moderate-income neighborhoods in Kansas City, Mo., generally followed a metrowide trend, dropping by half from the 1990-1994 period to the 2001-2005 period.

Increased home lending supports neighborhood progress, area nonprofit groups say, and ownership can be linked to improved neighborhood conditions.

“Homeownership is like an inoculation from social problems,” says Riddle of The Family Conservancy.

Brentano adds, “(Home)ownership is one of the best ways to stabilize a neighborhood and keep it from declining.”

All these results suggest higher lending rates in low- and moderate-income neighborhoods are associated with improving neighborhood conditions in the form of rising home prices, stable or increasing homeownership rates, and a jump in new-home constructions, Harvey and Spong say.

It’s difficult to conclude how much of a contribution home lending made to these positive changes in neighborhood conditions, especially when economic trends, neighborhood redevelopment efforts and other factors are considered as well.

However, Harvey and Spong say home lending contributed to or helped enable many of these favorable trends to take place by supporting homeownership and rising housing values.

These effects can be exponential—the success of low- and moderate-income neighborhoods attracts homebuyers, like the Jackson and Melgoza families. Their lives are better because of homeownership, they say.

“People see these areas as a place where they would like to live and raise a family,” Brentano says.

Home sweet home

Above the chatter of little voices and the clanking of pots in the kitchen, a car pulling into the driveway can be heard.

“Daddy!” 9-year-old Catalina exclaims, running to peer through the window blinds as the car’s headlights illuminate her face.

Hugo Melgoza is home from his job as



PHOTO BY GARY BARBER

During the past decade, home-purchase lending in low- and moderate-income neighborhoods grew at a faster pace than the rest of the Kansas City metro area. This Kansas City neighborhood has benefited thanks to one nonprofit's rehab efforts and lending assistance.

a technician at a local engineering company. His wife, Sarah, is in front of the stove with Diego, 1, balancing on her hip and 6-year-old Anthony looking on.

Sarah works as a secretary at the children's school just minutes from their home. It was the drive from their townhouse to the school that took her past Lloyd Street, which is now their address. The nonprofit that sold the Melgozas the house also awarded them a grant to help purchase it.

Catalina has a bright pink room covered with her artwork and filled with dolls. Even though they no longer share a bedroom like they did in the rental, her little brother, Anthony, disregards the "keep out" signs posted on Catalina's bedroom door to jump on her bed. Still, a room of her own is her favorite thing about the house, Catalina says.

Hugo and Sarah understand. They both grew up in homes their parents owned. They want the same for their children, and someday, their children's children.

In addition to the investment they are building and the contribution to the community they are making, the Melgozas have something to call their own, Sarah says.

"This is home."

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

- HOME FINANCING IN KANSAS CITY AND ITS CONTRIBUTION TO LOW- AND MODERATE-INCOME NEIGHBORHOOD DEVELOPMENT
- LOW- AND MODERATE-INCOME HOME FINANCING: WHAT ARE THE TRENDS IN KANSAS CITY?

By James Harvey and Kenneth Spong
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