Smarter Communities: How the Community Development Corporation and Smart Growth Policy Offer a Better Quality of Urban Life

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I would like to thank my family for their continual support
Mia and Adam, my fellow thesis buddies, for sharing the pain and joy!
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Introduction

Housing is a central component of any debate concerning the welfare of society. My exploration begins with the assumption that where you live is the largest factor to lifestyle and quality; housing determines how people live, how they may feel about themselves, their ability to provide for their loved ones, and develop life and job skills for the most desirable existence possible. For the past thirty-two years, the Department of Housing and Urban Development (HUD), with the assistance of the Federal Government, has made an attempt to enhance this experience for low-income individuals through tenant and project based section 8 programs. Today, it is highly debatable who and to what extent these programs and policies actually benefit.

The rapid decline of urban centers across the United States increases the urgency to examine housing programs and policies. My intent is to conduct an investigation of contemporary urban housing policies with an emphasis on the Smart Growth and Smart Housing Policy. I will begin by laying a descriptive, historical and economic framework to conduct an analysis of Smart Housing Policy and the major concepts upon which it relies. An application of those findings to the Hyde Park neighborhood in Boston will reveal how and why Smart Growth is a viable long-term solution for declining urban areas. Currently, expiring-use contracts in Boston, Massachusetts pose a threat to the diversity of housing option and the quality of life afforded by an urban landscape. Hyde Park presents an example of an urban community that has seen a quick turn around in the face of smart housing policy. A look at this community highlights the scope of benefits the community development corporation and smart growth have to offer; the end result is a more functional approach to urban housing policy.

In recent years, the Community Development Corporation has gained intense support amongst advocates of affordable housing. Boston, Massachusetts has experienced the wealth and well-being that these organizations can generate in a broken urban community. The Hyde Park neighborhood provides a sad but informative narrative about the politics of housing. The tragedy lies in the devastation that past housing polices have created; but the triumph lies within a new solution. Here, the benefits of more inclusive planning, development, and land-use can be accredited to the birth of new, smarter housing policy.

Frequent changes in the economy, tax code, laws and societal guidelines have hindered the long-term success of past and present housing policies and programs. Consequently, new policies are crafted to fix the problems left by their predecessors. Traditionally, the Federal Government has offered incentive to actors in private markets to spark growth in the affordable housing market; this approach has often succeeded in the construction of large numbers of affordable units. Unfortunately, the narrow scope of housing programs and policies fueled by private markets has been unable to stand the test of time.

The implementation of Section 221 (d) (3) and Section 236 in Boston, Massachusetts represent housing policy that now threatens the quality of urban living. Between 1960 and 1980, HUD, with the assistance of the government offered mortgages with extremely low interest rates to give private builders incentive to construct affordable housing. Suburban sprawl provided for the swift production of single family homes for middle-income people; the low-income individual was excluded from this market. As a result, the majority of affordable housing generated from Section 221(d) (3) and Section 236 lies within urban areas. At the time, this was an innovative and successful incentive that worked to house thousands of those whom were at the most risk to be excluded from a competitive, market rate housing arena. Over time, the urban landscape in Boston grew and changed; housing prices soared and the private builders saw a goldmine.

Section 221 (d) (3) and Section 236 were unable to stand the test of time due to the expiring provision of the policy. By September 2000, many of the loans had been paid in full, and the owners were free of their obligation to the government and the high-risk individuals that they once housed. The end result was a conversion to market rate prices well out of the economic reach of low-income individuals. Without the suburbs as an alternative, the low-income group faced displacement. From an investment prospective, conversion was a lucrative decision but from a social welfare prospective it was devastating. Although the builders received subsidy money from the government that made their profits more than fair, tapping into the competitive market rate pricing arena promised profits of five-hundred to seven-hundred percent[1]. The ensuing crisis of expiring-use contracts has enhanced the allure of Smart Housing and the Community Development Corporation that guides its success.

A decline in the housing market exploits and intensifies the corrosion of peripheral activities such as recreation, employment, schooling and health care, and transportation. A low-income neighborhood that has poor transportation outlets to areas with higher quality and paying jobs diminishes the earning power of its residents and thus

[1] Mahoney, John. *Telephone Interview*. March 11th, 2006.

their overall quality of life. For one Boston neighborhood, poor transportation options increased the intensity of the expiring-use contracts.

Travel between inner-city Boston, where most service sector jobs are available, and Hyde Park demonstrates the co-dependant relationship between housing, community and peripheral activities such as transportation. Smart Growth recognizes transportation as a function of a person's utility that is derived from the housing environment. Furthermore, it proves that matters of public transportation do not solely affect those who depend directly on it. "Choice riders"—people who ride the metro out of heightened environmental or fiscal concern[2]—also suffer a loss from poor public modes of transportation. Land-development patterns that rely on automobile usage present negative consequences for city-dwellers and inhabitants of the suburbs[3].

Smart Housing Policy seems like the obvious choice; who after all would want to do anything to the contrary? Advocates for the policy are not simply trying to hook their supporters into a meaningless title; it does just what the name implies. Through a set of principles, Smart Housing seeks to be a complete package solution to the revitalization, expansion and gentrification of distressed urban areas. Not to leave anyone behind, Smart Housing policy also seeks to remedy the ills of sprawl that have passed inner-city

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[2] Bullard, Robert D. et al. "Building Transportation into Smart Growth". *Highway Robbery: Transportation Racism & New Routes to Equity*. Eds. Robert D. Bullard, Glenn S. Johnson, Angel O. Torres. Cambridge: South End Press, 2004. (p.179).

[3]Here, they claim that development patterns that rely on car-usage are a fiscal ploy on behalf of local government and politicians. They claim, "Buttressing the asphalt and construction industry, state departments of transportation (DOT) are basically road building programs that respond to the highway lobby, a lobby that fills the coffers of many politicians. Few could argue that transportation dollars are dispersed on a level playing field. While political leaders would never think of cutting-off their 'pork barrel' home-district road-building programs, efficient, clean urban mass transportation systems have few powerful lobbies of political allies" (Bullard, p.174).

problems on to outlaying suburban areas. Here, the relationship is reciprocal, but someone must take the first step towards resolving the feud.

Smart Growth is a response to past housing policies that have encouraged sprawl and regional inequities. Sprawl is known as the flight from urban areas to suburban and rural areas in hopes of lower costs and a higher quality of life[4]. Flight to outlaying suburban areas occurs for a number of different reasons; a popular justification is the attractive tax incentives offered to suburban and rural inhabitants. Consequently, urban areas have lost sizable portions of tax base dollars which decreases the quality of life for those who remain. A decrease in the tax base also contributes to regional inequities. Fortunately, not all urban areas are distressed; in fact, in Boston there are many areas that enjoy plentiful municipal services, better schools and facilities for their children, and less crime. Boston is a municipality that is split into many different and complicated districts, precinct and wards all with separate political representation—the effects of sprawl and the likelihood of regional inequities are magnified.

Why is Housing so Important?

The idea of a home is central to the image of the American Dream. It is not only a safe place to rest your head, entertain guests and raise a family, but it is often a dependable vehicle to social mobility when all other avenues are unavailable or impossible. The benefits of a home are plentiful whether it is rented or owned. Common knowledge indicates that buying a home in the United States requires sufficient financial resources; this is determined in a numbers of ways. If one is so lucky, pure cash is a sure

[4] Bollier, David. *How Smart Growth Can Stop Sprawl: A Fledging Citizens Movement Expands.* Washington, D.C.: Essential Books, 1998. (p.2).

way to purchase property and often escape ghastly penalties in the form of income and property taxes. The more common method is to apply for a home loan; Federal programs and policies like Fannie Mae, the Federal Housing Administration (FHA) and HUD support the interest of low-income individuals in the pursuit of homeownership. The introduction to the National Homeownership strategy states:

> Homeownership is a commitment to strengthening families and good citizenship. Homeownership enables people to have greater control and exercise more responsibility over their living environment.
>
> Homeownership is a commitment to community. Homeownership helps stabilize neighborhoods and strengthen communities. It creates important local and individual incentives for maintaining and improving private property and public space[5].

Unfortunately, owning a home is not the final determinant to quality of life and community. If a community lacks the resources to offer its residents a better way of living, living in that area suffers a loss in value.

The rental of a dwelling also offers perks to the inhabitant, especially for those who live in urban areas. For the low-income individual, the community in which they live is the driving force behind how well they are able to provide for themselves and their families. For example, a community that has good transportation outlets and options to the inner-city create better employment options. The low-income individual faces many obstacles in the pursuit of a home; the obstacles may vary whether the person wishes to rent or own, but the degree of difficulty remains much of the same.

[5] Retsinas, Nicholas P. and Eric S. Belsky eds. *Low-Income Homeownership: Examining the Unexamined Goal.* Cambridge: Joint Center for Housing Studies, 2002.

The state of public transportation across the United States exemplifies the consequences of regional inequity while providing one of the most compelling arguments for Smart Growth[6]. Current development and housing strategies have held the same opinion; thus, spending power is generally channeled away from public transportation. This leads to dilapidated buses, subway cars and light-rail systems that offer complicated, costly and truncated transportation options for lower-income individuals[7]. For those interested in any form of mobility within society, development patterns have made the vehicle a must-have.

My internship during the summer of 2005, supplied the first-hand knowledge and experience necessary to further advance my position on urban housing policies. The most shocking part of my adventure was in learning the obstacles that poor transportation options created. I came upon this conclusion through my intent to master the geography of Boston by relying solely on public transportation. I chose not to engage in the memorization process associated with driving to instead acquaint myself with the various

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[6] Smart Growth Network. "Smart Growth Online". About Smart Growth. http://www.smartgrowth.org/about/default.asp. (March 2nd, 2006).
It is important to note in detail the principles of Smart Growth that benefit transportation options. The following principles were extracted from the website listed above.
Create walkable neighborhoods, "Their desirability comes from two factors. First, walkable communities locate within an easy and safe walk goods (such as housing, offices, and retail) and services (such as transportation, schools, libraries) that a community resident or employee needs on a regular basis. Second, by definition, walkable communities make pedestrian activity possible, thus expanding transportation options, and creating a streetscape that better serves a range of users -- pedestrians, bicyclists, transit riders, and automobiles. To foster walkability, communities must mix land uses and build compactly, and ensure safe and inviting pedestrian corridors."
Provide a variety of transportation choices, "Communities are increasingly seeking these choices -- particularly a wider range of transportation options -- in an effort to improve beleaguered transportation systems. Traffic congestion is worsening across the country. Where in 1982 65 percent of travel occurred in uncongested conditions, by 1997 only 36 percent of peak travel occurred did so. In fact, according to the Texas Transportation Institute, congestion over the last several years has worsened in nearly every major metropolitan area in the United States."

[7] Bullard, Robert D. et al. "Building Transportation into Smart Growth". *Highway Robbery: Transportation Racism & New Routes to Equity*. Eds. Robert D. Bullard, Glenn S. Johnson, Angel O. Torres. Cambridge: South End Press, 2004. This claim is not true in cities where public transportation is associated with "choice riders". However, such a scenario is the exception rather than a rule.

subway, bus, and commuter rail options. Coming from Minneapolis, Minnesota where car usage is the primary mode of transportation, I had obvious concerns. For the most part, I was impressed with the ease and effectiveness of the metro system.

Each morning, my journey began in North Andover, Massachusetts, which is about a forty-five minute commute by car in moderate traffic. However, my total travel time by public transport was approximately two hours and fifty-five minutes. The most complicated and expensive leg of this commute was from South Station, a central outlet, via the Fairmount Line to Hyde Park. The commuter rail ran only once every hour in contrast to most other commuter rail lines that ran about once every 20 minutes. Considering the limited number of stops along the rail line, it was a pure stroke of luck that I arrived within 6 blocks of my destination. Peeved by the inconvenience, I simply brushed the matter aside conferring that there was nothing I could do about it.

Another look at my observation made me realize that if poor modes of transportation put a damper on my day, the permanent residents of Hyde Park probably felt the same way. In the first week of my internship, I came to a very clear understanding of their trials and tribulations. The days on which I was running late put my patience, wallet and aerobic capacity to the test. Because the Fairmount/Indigo commuter rail ran once every hour, if I missed my train, I had to embark on a journey that included numerous subways and bus transfers. Fortunately, I never had to stay late; such a scenario would have created additional problems to transport. The last commuter rail train leaves at 9pm, this is the most efficient and inexpensive means of travel. Attempting to reach the very same destination in a different manner requires standing on corners late at night and purchasing multiple transport tickets; not a good choice. One day, I made a complaint under my breath that would later be the basis of my senior honors thesis. I just didn't see the point to salvaging housing options in an area that had such a poor outlet to other areas people might depend upon to live, work and enjoy themselves. John Mahoney, the director of the Southwest Boston CDC, noticed my agitated state and suggested that I channel my discontent in a positive direction. What came of our discussion was a plan to test out the benefits that Smart Housing Policy had to offer.

A community development corporation alerts decision makers to the challenges and preferences that community members face in order to mend broken urban communities. The Community Economic Development Assistance Corporation is one such organization that is dedicated to this principle. In 1978, the Commonwealth of Massachusetts created CEDAC to serve as an aid to organizations committed to community economic development. CEDAC is a public-private, community development finance institution that provides technical assistance, pre-development lending, and consulting services to non-profit organizations involved in housing development, workforce development, neighborhood economic development, and capital improvements to child care facilities[8]. Included in this laundry list are CDC's, like the Southwest Boston Community Development Corporation.

The CEDAC database was a key contributor to my exploration of Smart Housing Policy. I ultimately used it as a resource to contribute to opening the barriers of communication between decision makers and community member to advance smart growth principles. I worked closely with John Mahoney, the director of the Southwest Boston CDC, and another intern, Cindy to come up with a plan of action that could be

[8] Community Economic Development Assistance Corporation. CEDAC Home Page. 2005 http://www.cedac.org/. (March 9th, 2006).

developed and implemented during the course of my summer employment [9]. With my interdisciplinary education in mind, I decided that my talents would be best exercised in a project that had more of a quantitative feel. Cindy felt that her main focus would be best put to use in a creative environment. In the end, I decided to compose a document that could inform and persuade about expiring-use properties in Boston. The document that I created was geared towards State representatives and Senators to convince them to make the salvation of expiring-use properties higher up on their political agendas. Cindy decided to organize an art fair that would unite the neighborhood so they would have a better base to identify and solve problems in their community. My contribution to Hyde Park was two-fold; I wanted to impact the community and the decision-makers that represented the community to produce a model that showed the effectiveness of Smart Growth policies and principles. The end result was a real life success story for Smart Growth and the revitalization of the urban community.

[9] Cindy is a student at Brandeis University in Mass majoring in Economics and Mathematics. Together we worked on a summer project that would aid the progress of Smart Growth principles in the Hyde Park neighborhood. Our objective was to educate residents in Hyde Park about Smart Growth and how it could improve their lives. Cindy's commitment was to educating the residents of Hyde Park, while mine was to influence the decision-makers; however, we worked together to accomplish both objectives. The project that we engineered was successful in bridging that gap between residents and politicians.

Chapter One
History

Where Did We Go Wrong?: A Look Back Down the Memory Lane Called Housing Policy

The history of Federal involvement in housing and urban development is complicated and questionable. The past half a century has relied heavily on support by local government, home finance organizations, and the public to use loans, grants, subsidies, and insurance mechanisms to spur growth and development. The advantage of the resulting programs and policies has been designed to offer financial benefits to home seekers while promoting the national agenda. For the most part, the American people have benefited in the form of large-scale production of "good" housing within the economic reach of most families[10]. However, it is questionable if these benefits have succeeded in creating equal housing opportunities. Judging from the current state of housing markets it seems as though Federal Government intervention has only exacerbated patterns of discrimination and segregation. Focusing on the urban housing markets further highlights the inequalities generated by past and present programs and policies. Segregation and discrimination in housing has lead to regional inequities that effect transportation, education, and the overall quality of life.

Where it all began: Early Housing Policy 1930's to the 1950's

The Federal Government made a splash into the housing markets in 1930. Over the next six years, a solid base of agencies and mechanisms was established to set the tone for Federal intervention in the following fifty years. The wide spread economic

[10] (Sloane, p.133)

devastation experienced with the Great Depression and WWII was the driving force behind the revolution. Between 1928 and 1933, the construction of residential property fell by 95 percents, and the expenditures on home repair fell by 90 percent[11]. The vast number of displaced Americans increased on a daily basis; society needed help. Here, the premise for government intervention in housing markets was based on the developing belief that stability in housing contributed to the stability of the nation.[12]

Early Federal Housing policies did little to nothing in the way of increasing welfare to society. In fact, the period between 1930 and 1950 is often described as producing housing policies that were an active exponent of residential segregation and discrimination[13]. On July 22nd, 1933 the Federal Home Loan Bank Act (Public Law 304) was passed to expand and revolutionize mortgage loan opportunities. Unfortunately, many mortgage loans were only made available to those who presented a very small risk[14]. Here, the social cost of providing assistance obviously did not exceed or even come close to the public benefit[15]. Troubled by the ever increasing rate of foreclosure by the small homeowner, President Roosevelt lobbied the house and the senate to draft legislation declaring homeownership a national issue; banks and the government were suffering the consequences of unstable housing market because of high rates of loan default and foreclosure. On June 13th, 1933, The Federal Home Owners Loan

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[11] Jackson, Kenneth T. Crabgrass *Frontier: The Suburbanization of the United States.* Oxford: Oxford University Press, 1985. (p.193).

[12] In 1931, Herbert Hoover convened the National Conference on Homebuilding and Home Ownership. Committees were formed and recommendations made as to how federal housing policy should be tailored and implemented (Jackson 1985).

[13] (Sloane, p.133)

[14] 41,000 applications were made for direct loans, only three were approved!(Jackson 1985).

[15] This concept is explained with greater detail in Chapter Two.

Corporation (HOLC) was signed into law by FDR; it was designed to help fund the refinance of at-risk mortgages and even aid homeowners who had foreclosed in reclaiming their properties[16]. Additionally, it inspired an increase in the average length of debt repayment to lower monthly payments; this made the loan a more viable option[17]. Congress also supplied loans and saving associations with insurance that would decrease risk and increase stability. From 1932 to 1934, the Federal approach to housing was aimed towards revitalizing credit options and opportunity to provide good housing to American families.

The New Deal efforts that resulted in the creation of the FHA and the HOLC provided both long and short term benefits to society. Without the HOLC, many Americans would have lost their homes with few or no options to reclaim their property or purchase a new one. The FHA revolutionized the mortgage loan market by offering low-interest, fully amortized, long-term, high loan-to-value ratio loans[18]. The private housing and finance industry followed the lead taken by the FHA to increase the viability and versatility of homeownership.

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[16] The HOLC was much more advantageous to overall societal welfare. The rate of application varied immensely between the states, but the participation and acceptance rate was much higher than previous programs. In Mississippi, 99 percent of qualified individuals applied for loans, while Maine only figures closer to 18 percent. Nationally, the participation rate was 40 percent. A possible reason for the increase participation in mortgage loan programs may not be to the feasibility to of the program, but rather loosened public attitudes towards debt. Prior to WWI, there was a stigma surrounding debt, wealthy families generally purchased homes outright to avoid public scrutiny. After the war, rising costs made it increasing difficult to uphold this stigma. Participation in housing assistance programs rose out of necessity and not choice (Jackson, p. 196).

[18] Sloane, Martin E. "Overview of Federal Housing Policy: Past and Present". *A Sheltered Crisis: The State of Fair Housing in the Eighties.* Ed. United States Commission on Civil Rights. Washington, D.C.: US Government, 1983. (p.135).

New and improved appraisal methods contributed to the strength and stamina of HOLC programs. The increased reliability of appraisal methods further contributed to the benefit of home mortgage loan programs and policies. The HOLC did not create a new system of appraisal; real estate officials had practiced methods of appraisal well before its time. Instead, the HOLC focused on refining the process of appraisal by demanding more sophisticated, better trained individuals to engage in assessment. Unfortunately, fine tuning this process had a downside. Improved methods of appraisal created incentive for officials to discriminate against a community because of its social characteristics and composition, instead of its actual physical state of being. This concept is known as red lining, and its effects are still impact neighborhoods to this day[19].

President Harry S. Truman was the first to turn the attention of federal housing policy towards reform instead of new construction. The FDR era dissolved barriers to housing market entry by loosening public stigmas about debt and increasing home loan mortgage options. When Roosevelt died suddenly, Truman was left to clean-up and fill-in the gaps that previous housing policy had left behind. He realized the strength of the urban vote and tailored his Fair Deal to meet their needs and interests; the Fair Deal was created out of the concern for, "the people"[20]. Truman's success in incorporating housing

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[19] (Lindeman, 1976) Offers a detailed discussion and analysis of redlining as a discriminatory tactic.

[20] Davies, Richard O. *Housing Reform During the Truman Administration*. Columbia: University of Missouri Press, 1971. (p.31). President Truman has withstood his own business failures, he knew what it was like to be an American struggling to use available resources to create the American dream. His experience helped establish a bond with the working-class and ultimately had a great deal of influence on fair deal policies. Truman's experience and exposure to the underprivileged class of society was afforded to him during his stint as a judge in Jackson County, Missouri. There he dedicated himself to the improvement of social welfare in the years following the depression. It was during his appointment as judge that he was exposed to problems in the housing market. In 1944, he issued a compelling and powerful statement about urban housing redevelopment during his campaign for vice presidency. He declared that, " The heart of a community is its housing (p.31)". His dedication to this belief contributed to a broad range of urban redevelopment and public housing reform.

policy into the body of his political agenda also inspired aspiring presidential candidate Robert A. Taft. Although conservatives generally opposed public housing assistance, Taft insisted that it would not restrict the free system, and would be locally initiated and controlled with the federal government simply providing funds[21].

Unfortunately, the programs and policies created by the Federal Government added to racial segregation and discrimination. The FHA led the way in the promotion of discriminatory practices in housing. The 1935 FHA manual insisted, "infiltration of inharmonious racial or nationality groups" in a previously homogenous neighborhood was a disruption to peace and harmony[22]. In order to keep the peace, the FHA issued deed restrictions on any venture financed through their organization.

Exclusionary practices in homeownership really took form after the Great Depression and World War II. The creation of the Federal Housing Administration (FHA) re-vamped the home mortgage loan market by lowering monthly down payments, lengthening repayment time-frames by granting the authority to unsure home loans made by private lending institutions. From the onset, the FHA operated under the social guidelines set by the private market. Unfortunately, this lead to discrimination based on race, gender and even location of a property. Similarly, the Federal Home Loan Bank Board (FHLBB) provided insurance opportunities for potential investors[23]. The advent of these agencies made the governments involvement in housing markets an indirect relationship; their function was to facilitate housing credit through the ordinary channels

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[21] (Davies, p.33)

[22] The *Richmond School Decision: Complete Text of Bradley v. School Board of Richmond*. Chicago: Integrated Education Associates, 1972). P.172. This section of the FHA manual was cited in the source.

[23] The Federal Home Loan Bank Board was created in 1932 by congress in an effort to stimulate growth and investment in the post-war economy. During the wartime period, few of the countries resources were devoted to housing needs, after the war, the need was inevitable.