

Springfield Neighborhood Housing Services, Inc.

By Alexander von Hoffman

In Springfield, Massachusetts, Springfield Neighborhood Housing Services' challenge is to expand services to African American homeowners and homebuyers.

Introduction

In July 1999, Charles Rucks, a former marine and senior manager with a computer systems company, took the helm of the Springfield Neighborhood Housing Services, Inc. (Springfield NHS), a venerable institution that assists low-income homebuyers in western Massachusetts. Rucks, whose family moved from Mississippi to Springfield when he was young, passionately wants to help all low-income people, and especially African Americans, make good lives for themselves.

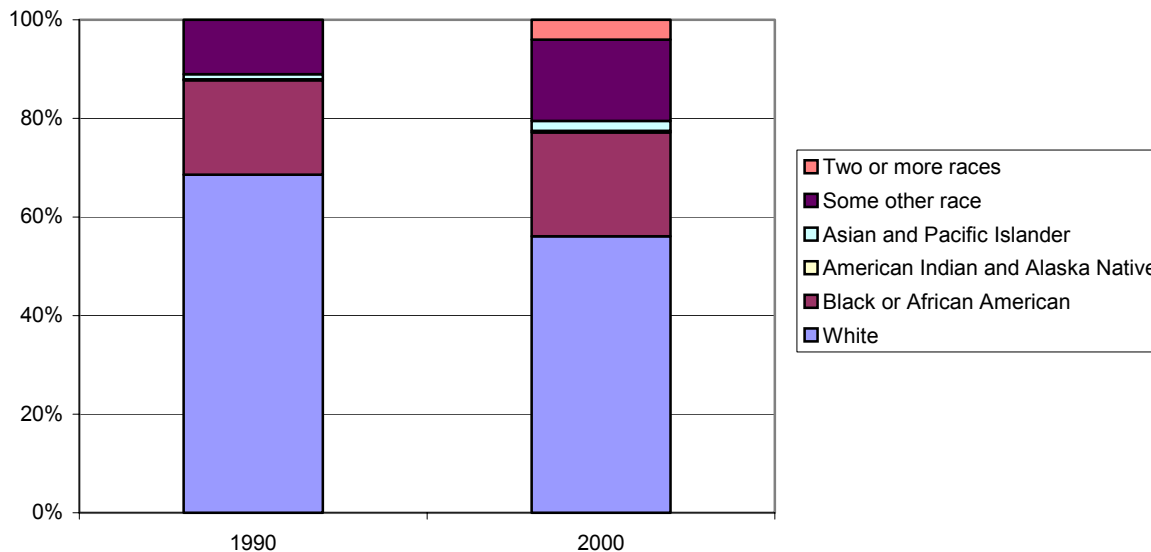
Yet Rucks has been disturbed to discover that low-income African Americans and Latinos are denied conventional loans at a much higher rate than whites are. Worse yet, he discovered, African Americans and Latinos frequently take out subprime loans, while predatory lenders target the elderly. As Springfield NHS prepares to produce a comprehensive strategic plan, Rucks seeks ways to expand the agency's efficiency and capacity to meet the challenge of subprime and predatory loans.

Springfield, Massachusetts

On the banks of the Connecticut River in southwestern Massachusetts lies Springfield, Massachusetts, a medium-sized New England industrial city, whose industrial legacy includes mills, armories, and iron works. In recent years, the number of people employed in manufacturing has declined severely, and the government and service sectors have become the largest employers. The general area of Springfield boasts a Fortune 500 company, Massachusetts Mutual Life Insurance, as well as the University of Massachusetts, Amherst and Mt. Holyoke colleges. Four schools, American International College, Springfield College, Western New England College and Springfield Technical Community College, are located in the city itself.

Springfield is home to about 152,000, having lost about 3 percent of its population between 1990 and 2000. Of the city's residents, whites make up 56 percent, African Americans 21 percent, and people who categorized themselves as part of another race, 16 percent. Twenty-seven percent of the population was Hispanics/Latinos according to the 2000 census. The number of whites in Springfield decreased by more than 22,000 residents between 1990 and 2000, while the number of blacks increased by a bare 1 percent and the number of Hispanics rose by 9 percent.

African American population stayed steady over the past decade despite population decreases



The health of Springfield as an urban place, in short, is stable but not spectacular. It is not without strengths, and recently it has held its own. The city, however, has not been growing significantly in either employment or population.

Springfield Neighborhood Housing Services, Inc. (Springfield NHS)

Established in 1978, Springfield Neighborhood Housing Services, Inc. (Springfield NHS) aims to transform families and revitalize distressed neighborhoods in Springfield through promoting sustainable homeownership, redeveloping blighted properties and empowering residents. Springfield NHS has 7 staff members and its budget for organizational expenses for 2003 is approximately \$575,000.

The mission of Springfield NHS is to transform families and revive Springfield's distressed neighborhoods. Its leaders believe that sustainable homeownership will help create the wealth essential to this transformation. The organization carries out its goals by spreading information to and promoting homeownership among the neighborhoods' residents; by working with local businesses and government to make home improvement financing readily available and provide city services and public improvements; and by helping residents to take charge of their neighborhoods.¹

In particular, Springfield NHS serves low- and moderate-income households through Full-Cycle Lending[®] programs, including pre-purchase counseling and education, home purchase and

¹ Neighborhood Reinvestment Corporation, Profile of Springfield Neighborhood Housing Services, Inc., 2002; Springfield Neighborhood Housing Services, Inc. Strategic Plan Draft, 2003.

rehabilitation technical assistance, loans and grants for home purchases and/or repairs, and post-purchase counseling and education.

Springfield NHS has several service areas. To residents of metropolitan Springfield it provides counseling and education services. Its lending products are aimed at eligible families who purchase homes within the city of Springfield. Springfield NHS targets its revitalization activities on a three-neighborhood area, where it will invest its capital to acquire blighted, vacant properties and gut rehab or build new houses for sale to first-time low-income homebuyers.

As an organization, Springfield NHS is closely connected to its community. The board of directors is composed of fifteen individuals who represent the local residents, business partners, and the city government. As required in the bylaws, a majority of 8 board members are residents in the organization's target community, which ensures that the organization will remain sensitive to the needs and wishes of the people it serves. In addition, its executive director, Charles Rucks, is a native of Springfield, and 5 of the 7 staff members live within walking distance of the agency.²

Springfield NHS serves customers who are usually overlooked by traditional financial institutions. According to the agency, 67 percent of its customers are households headed by women, 80 percent are low-income households, and 85 percent are African American or Latino. This year the agency has carried out a program with the Springfield Housing Authority, to help families receiving Section 8 housing assistance vouchers become successful homeowners.³

Clients Served by Springfield NHS (2002)

Segment of the Population	Percent of All Clients
African American or Latino	85%
Low-income households	80%
Women-headed households	67%

Besides being a charter member in the NeighborWorks® network, supported by the Neighborhood Reinvestment Corporation, Springfield NHS has taken on partners for its investments. Among these have been the Federal Home Loan Bank of Boston, Irene E. and George A. Davis Foundation, the Massachusetts Life Insurance Initiative, Fannie Mae Foundation, Freddie Mac, and the Affordable Housing Trust Fund of the Commonwealth of Massachusetts. Springfield NHS has also been certified as a Community Development Financial Institution, which offers investment funds to match any investment to Springfield NHS from private entities.

During the last three and a half years, Springfield NHS has helped more than 150 new homeowners through homeownership counseling and various forms of financial assistance for downpayments, mortgages, and closing costs. The efforts of Springfield NHS make an impact

² Springfield Neighborhood Housing Services, Inc., Overview, July 2003; Charles Rucks, telephone interview with author, Springfield, Massachusetts, July 15, 2003.

³ Springfield Neighborhood Housing Services, Inc., Overview, July 2003.

not only on the families involved but also on their neighborhoods. The agency estimates that these services will help families accumulate approximately \$6.7 million in equity wealth over the next decade. Springfield NHS also put more than \$2.5 million of capital into home rehabilitation and repair as well as constructing new homes, which it calculates created 42 jobs. Finally, the agency was able to stop 40 foreclosures, which protected about \$200,000 in homeowner equity.

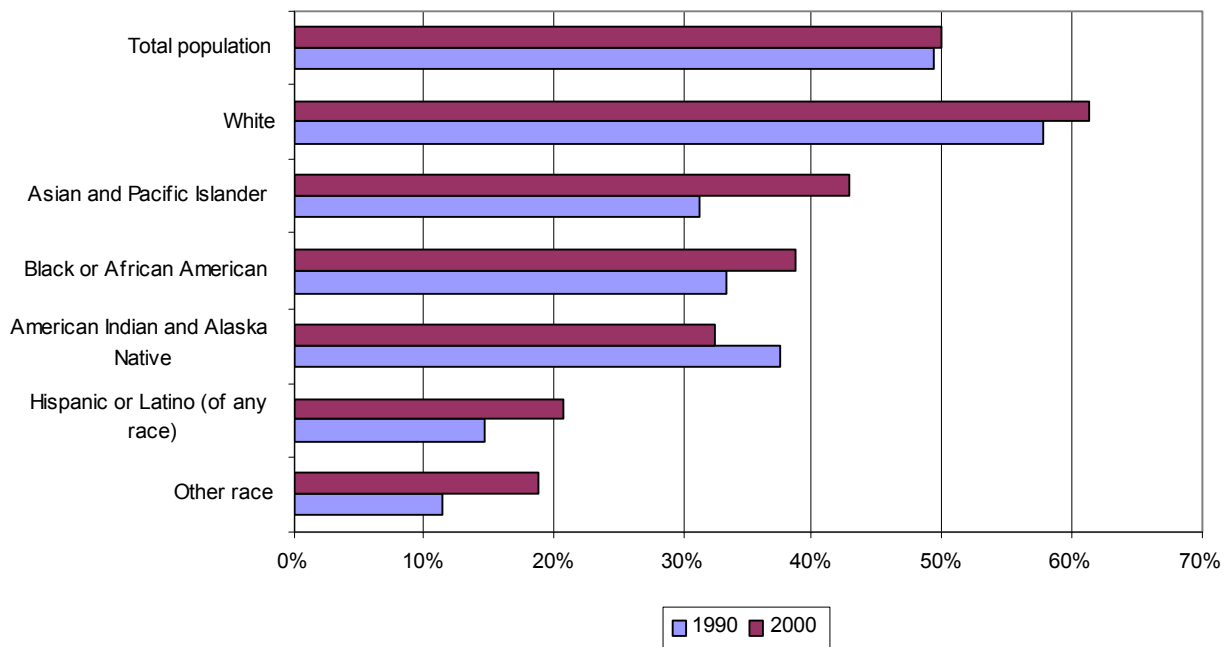
The director of Springfield NHS, Charles Rucks, is leading the organization in an effort to make it more productive and increase its impact on Springfield's neighborhoods. To that end, Springfield NHS is preparing a five-year strategic plan that will address its mission, service area, products and services it provides, and how to measure its performance.

Challenges in the Homeowners' Market

1. Low Homeownership Rates

Homeownership lags in Springfield, in part due to New England's tradition of two- and three-family houses, but it has been slow to climb as well. During the 1990s the rate of homeownership rose in Springfield by only half a percent to 49.9 percent, well below the national average. In 2000, the percentage of homeowners among whites was 61 percent. The comparable rate for African Americans was much lower, only 39 percent, although the rate had risen by a third since 1990. The rate for Hispanics was only 21 percent, even lower although this rate too had risen sharply (15 percent) over the decade.⁴

African American homeownership rate increased from 33% in 1990 to 39% in 2000, still lagging behind Asians and Whites



⁴ Springfield Neighborhood Housing Services, Inc., Springfield MA, Housing and Demographic Data.

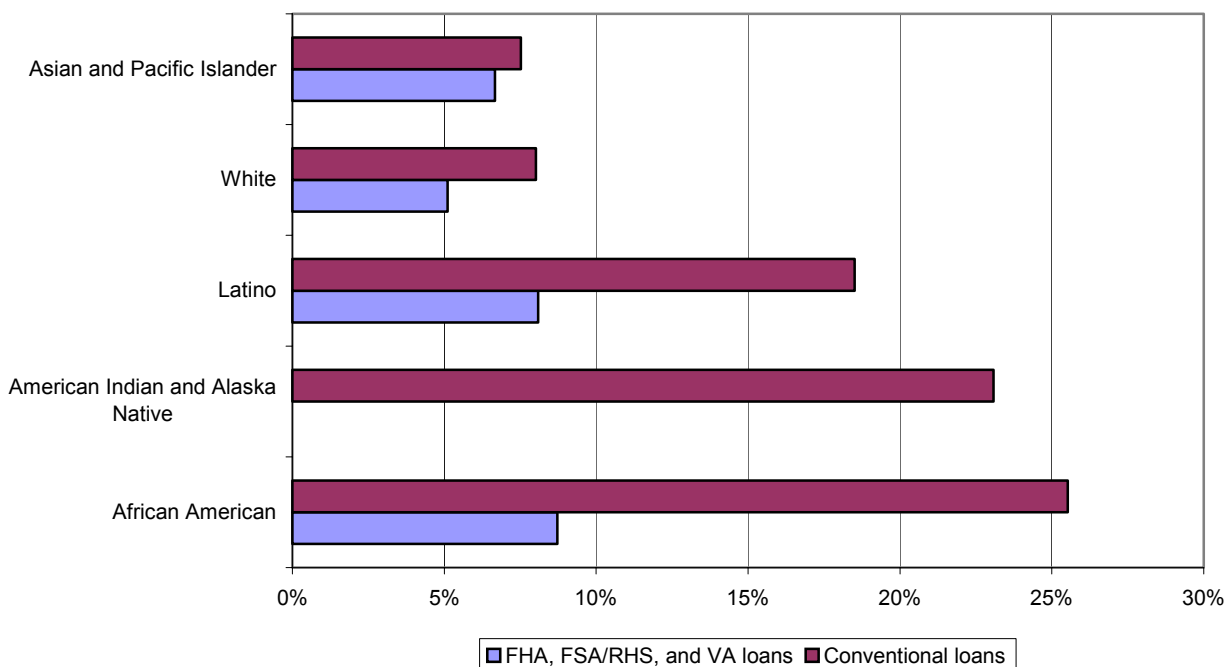
The largest barriers to successful homeownership, according to Springfield NHS, are:

- poor credit histories or debt ratios
- lack of money for downpayments and closing costs
- poor understanding of the homebuying process
- reliance on fringe financial services
- subprime and predatory lending

2. Loan Denials Greater for Low-income and Minority Households

In the Springfield area, members of low-income and minority groups were denied mortgage loans more often than others. Although the denial rates for FHA, FSA/RHS,⁵ and VA loans showed little variation, the conventional loan denial rates for Latinos and African Americans were 19 percent and 26 percent, respectively, while Asians and Pacific Islanders and whites both were only denied 8 percent of the time. Applicants for FHA, FSA/RHS, and VA loans who earned less than half of the area median income were denied approximately twice as often as applicants with higher incomes. And applicants who made less than half of the area median income were rejected 25 percent of the time, while those who earned more than half but less than the median income were denied 14 percent of the time. In stark contrast, the denial rate for those who earned the median or above was just 6 percent.⁶

African Americans had the highest denial rates for FHA and conventional loans (2001)



⁵ U.S. Department of Agriculture Farm Service Agency or Rural Housing Service.

⁶ Springfield NHS, Housing and Demographic Data.

3. The Threat of Subprime and Predatory Lending

During the last decade, even cities like Springfield, which have not grown dramatically, have experienced the explosion of credit. Twenty years ago, Charles Rucks observes, the issue in low-income neighborhood was that not enough credit was available. Today the issue is the high cost of credit due to subprime, which generally involves acquisition and refinancing of properties, and predatory loans, which usually involve seniors who are cash poor and asset rich.

Subprime and predatory lenders pose direct problems for Springfield NHS. Not only do these fringe types of credit undermine the finances of residents of the target area, but they also compete for the same customers.

The frequency of subprime borrowing, like denial rates, varies by race and income. According to statistics compiled by Springfield NHS, blacks in particular are prone to acquire on subprime credit. Sixty-nine percent of low-income African American borrowers take out subprime loans; the figure for moderate-income African Americans is only a little lower at 60 percent. Surprisingly, almost half (47 percent) of upper-income African American mortgagees hold subprime loans.

Among Latinos, the rate for low-income borrowers is 61 percent and for moderate-income borrowers is 50 percent. Yet the rates for white mortgagees are much lower. The percentage of low-income white borrowers with subprime loans was only 29 percent; of moderate-income borrowers, 21 percent; and of upper-income borrowers, a mere 10 percent.⁷

Although some subprime loans cost more because of actual credit risks, others simply cost more. Worse yet are predatory loans, which often target the elderly. As in other locales, the question arises as to why people—and in Springfield disproportionately people of racial minority groups—take more costly loans than necessary.

Academic research on this problem is incomplete, but two general reasons—lender prejudice and borrower attitudes—suggest themselves. The first is that racially biased lenders reject members of minority groups, especially low-income minority groups, and force them to obtain mortgages from subprime lenders. The second is, as seen in the Gwinnett County, Georgia case study, the tendency to place short-term benefits above long-term needs, which leads people to accept expensive subprime and, in some cases, predatory loans. Some borrowers say, according to Rucks, “I can afford the monthly payments, so what difference does it make if I get the subprime loan?” Rucks feels that the prevalence of subprime loans is but a part of the larger problem of high-cost loans and services, such as payday loans and pawnshops, that plagues inner-city neighborhoods.

Of course, the two explanations for African Americans and other minority groups taking subprime loans are not necessarily mutually exclusive. Biased lending practices may lead to or reinforce the habit of short-term thinking about mortgages.

⁷ Springfield NHS, Housing and Demographic Data.

Challenges to the Springfield NHS Organization

1. Low Volume

Despite its accomplishments, Springfield NHS serves just a small fraction of all homebuyer customers in the Springfield area. Its business is insignificant in comparison to that of large financial service companies such as Wells Fargo and Countrywide, making competition difficult.

2. Image

One of the problems Springfield NHS faces is that it is perceived as a low-income agency, which has negative connotations for some potential buyers. Some low-income black and Latino consumers avoid Springfield NHS either because of the stigma associated with an organization for low-income people, or because they mistakenly believe they will only have opportunities to purchase in black or Latino neighborhoods. Whites may shy away because they feel the institution is geared toward African-Americans and Latinos.

Springfield NHS's Current Strategy for Reaching Homebuyers

1. Getting the Word Out

Springfield NHS has targeted 22 low-income census tracts to get low-income families throughout Springfield to make the agency a “first-stop” for financial services. The agency is trying to get the word out both through various communications media and personally.

To communicate its message Springfield NHS for the last year, has been publishing its own newsletter. The circulation has reached 5000 readers, and, although not all of them are homebuyers, some are and others may help reach homebuyers. In addition, Springfield NHS has become systematic about issuing press releases and garnering publicity for its events. For example, television news shows and newspapers covered the opening of its NeighborWorks HomeOwnership Center[®], which state legislators attended, as well as recent ribbon-cutting ceremonies for newly built houses.

At the same time, the agency's director, Charles Rucks, has been cultivating personal relationships as a way of bringing the agency's message to African American and other minority households. The agency has fostered a connection to the Council of Churches of Greater Springfield. In addition, Rucks has fostering a relationship with Pastors' Council, which serves primarily black congregations. At the Springfield NHS annual dinner, among the 250 attendees were representatives of six of these churches.

Indeed, Rucks is something of a missionary for Springfield NHS and its array of Full-Cycle Lending[®] programs. He makes presentations to church and other groups, often using a compelling slide show to make his case. In addition, Rucks works in other ways to help his community, volunteering as a mentor or working with boards of local groups such as the YMCA.

2. Business Volume and Capacity

As part of the solution to its image, Springfield NHS would like to expand business to a wider variety of clients, including those of moderate incomes. As the loan funds from Neighborhood Housing Services of America are no longer restricted in lending to low income groups, agencies such as Springfield NHS can now increase their volume of business. With greater volume, the agency could serve more low-income households, but it could also counter the impression that it only serves poor minority clients.

Springfield NHS would also like to improve the speed and efficiency of its loan processing. The paperwork for underwriting and customer tracking is time consuming, and could be improved with new computer software. In addition, the agency's director feels, the system for managing its real estate portfolio also could be improved with better software.

3. Partnering

Another strategy for increasing the reach and impact of the Springfield NHS is to collaborate with other agencies. Springfield NHS has done this and is currently fostering relationships with such entities as the Hampden-Hampshire Allowance Project (a nonprofit group), Habitat for Humanity, and community development corporations in the nearby city of Holyoke, Massachusetts. In addition, Springfield NHS is working to extend its work with the Springfield Housing Authority and thereby increase lending to Section 8 recipients who wish to buy houses.

4. Countering Subprime and Predatory Loans

Springfield NHS is working hard to educate low-income borrowers about the dangers of expensive subprime and predatory loans. To this end, the agency offers a financial education program. To counter the attractions of the subprime lenders, the agency will continue to help clients refinance their mortgages at lower rates, but will drop its earlier requirement that those who refinance must do also carry out a rehabilitation or repair project. The agency will also help clients work out problems with predatory loans but requires them to enroll in its Financial Fitness program. Finally, Springfield NHS plans to offer three reverse mortgage products starting next year.

Looking Forward

The Springfield NHS already provides Full-Cycle Lending[®] and other programs to the low-income households of greater Springfield and already pays attention to the African American and Latino population. To address the problems that afflict in particular the African Americans and Latinos, the agency is striving to provide its products and training more effectively and in greater volume. As it prepares to produce a five-year comprehensive strategic plan, its staff and board must contemplate whether the present strategies are enough to deal with the conditions of the local market, and particularly the problems of subprime and predatory loans.

Discussion Questions:

1. What challenges face Springfield NHS in its quest to expand African-American home ownership?
2. What strategies and tools are working?
3. What new strategies and tools are needed?

Sources:

Charles Rucks, telephone interview with author, Springfield, Massachusetts, July 15, 2003.

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