



HUD Promise Zone Program Draws Mixed Reviews

By Phil Hall

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The new announcement by three federal agencies: The U.S. Departments of Housing & Urban Development (HUD), the Departments of Agriculture and Department of Education, on the latest round of competitive bidding for Promise Zone program funding was greeted by industry experts with a mix of encouragement for the program's goals and skepticism on whether it can help expand affordable housing in troubled areas.

Under the Promise Zone's bidding process, urban, rural and tribal communities are asked to put forth plans that would create a public-private partnership designed to boost community development efforts, including the creation of new affordable housing opportunities. Communities that are part of the Promise Zone program are provided with priority access to federal investments and federal staffing assigned to bring projects to their conclusion. In January, the first five Promise Zones were announced in three cities (Los Angeles, Philadelphia and San Antonio), the Southeastern Kentucky Highlands and the Choctaw Nation of Oklahoma.

"As a former mayor of an urban Promise Zone community, I have a unique appreciation for the talent, passion and the vision that local leaders offer when working to turn their communities around," said HUD Secretary Julián Castro, referring to the San Antonio Promise Zone, in a press statement issued by his Department. "Promise Zones are about giving folks who have been underserved for far too long the opportunity to build stronger neighborhoods and more prosperous lives. At HUD, we're honored to give other communities the opportunity to transform their futures so this work can continue across the country."

A number of industry professionals interviewed by National Mortgage Professional Magazine acknowledged that they were not very familiar with the intricacies Promise Zone program, although they expressed admiration for its intentions.

“I didn’t really catch it when it first came out,” said Rocke Andrews, president-elect of NAMB—The Association of Mortgage Professionals and broker/owner at Tucson-based Lending Arizona LLC, who noted the importance in homeownership as part of any community development endeavor. “I see housing increasing the strength of communities. When someone owns their own living space, they take pride in their community. This helps to improve all other issues within the communities.”

Jeannine Jacokes, CEO of the Community Development Bankers Association, also acknowledged not being familiar with the depth of program’s workings, though she was impressed with its stated goals.

“As a general issue, any federal program that focuses more resources on low-income communities is a good thing,” she said, adding that the inclusion of rural and tribal areas was particularly encouraging. “I think that is a very positive development.”

Logan Mohtashami, an Irvine, Calif.-based senior loan manager at AMC Lending Group and a financial blogger at LoganMohtashami.com, viewed the program with optimism.

“I don't have a problem with a Promise Zone agenda,” Mohtashami said. “It’s very small in nature and it directs money to a community that will be held accountable for results. It is too small in nature to move the needle, but I believe that is the intention to see how it works out. But accountability is always the key with government assistance.”

Mohtashami echoed Jacokes’ view on the inclusion of rural and tribal communities, rather than making the program strictly urban-centric. “Yes, including those areas, I believe, will have to be the key for expansion of a program to allow for more scale,” he added.

However, several industry experts were not entirely convinced that the program would address the general scope of community development and the specific role of housing in those at-risk areas.

“I must confess that I have not become intimately familiar with this program to judge its merits,” state John Councilman d John Councilman, president of NAMB and president of Fort

Myers, Fla.-based AMC Mortgage Corporation. “To my knowledge, I have not seen it filter into the general mortgage process. I would think it would be more efficient to utilize the wonderfully-trained base of licensed mortgage originators to participate in screening individuals who may be good candidates for home-ownership rather than using paid government staff to do that work. Perhaps that will be part of the plan that has not yet been manifested.”

Ryan Birtel, founder of Charlotte, N.C.-based Eolith Advisory Ltd., was more pessimistic.

“Blight is just part of the natural life and death cycle of real estate, a cycle driven by the unsubsidized desires of business and people to operate and live elsewhere,” Birtel observed. “Putting aside the impossibility of tracking the effectiveness of what seems like a massively complex bureaucratic program like Promise Zones, I wager that the government should focus its efforts exclusively at the individual level. Instead of fighting a natural and irresistible tide against a particular neighborhood, or ‘zone,’ subsidize people with the portable education, skills and small business support which will affect their long-term ability to live and operate where the natural demand is already increasing. That’s the key to sustainable wealth creation, not by asking folks without wealth to openly speculate, on a leveraged basis, against the tide—leave that to the hedge funds.”

Dr. Mark A. Calabria, director of financial regulation studies at the Washington, D.C.-based Cato Institute, saw a degree of *déjà vu* with the program.

“I just see these Promise Zones as an extended version of Enterprise/Empowerment Zones, and my read of the evidence is that these things generally shift around economic activity without actually creating any net new activity,” said Dr. Calabria. “So what generally happens is that some business is looking to locate somewhere and these zones influence them to locate in the zone, but they were always going to locate ‘somewhere.’ In general, I’m not a fan of ‘place-based’ subsidies, as they only move around economic activity and often the subsidies most get captured by the local elites. The best thing the federal government can do for local government is just get out of the way.”

And Dr. Peter Morici, an economist and professor at the University of Maryland’s Smith School of Business, worried that limiting the program to five communities per funding period dilutes its effectiveness on the wider economic picture.

“These kinds of programs can attract business to disadvantaged areas,” he said. “But in a slow growing economy, it only comes at the expense of other locations. In essence, they’re robbing Peter to help Paul.”

Phil Hall is managing editor of National Mortgage Professional Magazine.