Hurricanes Katrina and Rita caused unprecedented destruction in the Gulf Region. Hundreds of thousands of homes and businesses were destroyed, and over one thousand deaths have been reported in Alabama, Louisiana and Mississippi. The devastation wrought by these hurricanes also exposed a region wrestling with many facets of poverty. Specifically, the important role of assets in enabling people to survive and recover from this crisis has been highlighted in media coverage and in research following the storms. Clearly, the presence or absence of assets, and insurance on those assets, will play a significant role in determining who can participate in the long-term rebuilding of the Gulf Region.

Consequently, asset-building strategies that target low-wealth people and communities are vital to ensuring equitable participation in the region's recovery and rebuilding. Asset-building strategies such as financial education, savings tools, and non-predatory financial services would help mitigate the challenges that confront Gulf Coast residents. However, because jobs and home ownership are the primary means by which most individuals acquire assets, this paper focuses its recommendations on bolstering participation by low-wealth people in these vital areas. The recommendations include:

- Invest in workforce development programs that prepare area residents 1) to participate in the impending construction boom, and 2) for the new industries that emerge in the region;
- Target CDBG disaster recovery and/or HOME funds to support home repair and facilitate home ownership for low-income residents;
- Allow all areas affected by Hurricanes Katrina and Rita to qualify for the highest Low Income Housing Tax Credit (LIHTC) rate to make rents affordable in economically diverse communities; and
- Modify mortgage products to accommodate hurricane-specific challenges such as income disruption and insurance shortfalls.

The intent of these recommendations is to promote the development of a stronger and more equitable Gulf Region by stimulating employment and home ownership in a manner that specifically benefits low-wealth residents affected by Hurricanes Katrina.

A Profile of Destruction and the Gulf Region

The Federal Emergency Management Agency issued Federal Disaster Area declarations for an area covering 90,000 square miles after Hurricane Katrina.[1] Immediately following the storm, more than 2.7 million homes and businesses were without power, and hundreds of thousands of homes were damaged or destroyed.[2] In Mississippi alone 134,112 homes received damage.[3] The Congressional Budget Office reported job reductions in hurricane-affected areas ranging between 280,000 and 400,000 with estimated total losses – insured and uninsured – of $140 billion.[4] The storm also brought about significant loss of life. The number of deaths in Louisiana and Mississippi attributed to Hurricane Katrina stands at over 1300 with hundreds still unaccounted for.

The devastation wrought by this hurricane exposed a region beset by significant disparities in terms of assets and ownership. Table 1 highlights key socio-economic demographics for Biloxi and Gulfport, MS as compared to the rest of the nation.

Table 1
Selected Socio-Economic Characteristics In Hurricane-Affected Areas

	Biloxi, MS	Gulfport, MS	United States
Median Family Income	$40,685	$39,213	$50,046
Poverty Rate	14.6%	17.7%	12.4%
Home Ownership Rate	49.1%	58.7%	66.2%
Median Home Value	$92,600	$80,300	$119,600
			Source: U.S. Census 2000

Table 1 illustrates two aspects of poverty – a lack of income and a lack of assets. In Gulfport, the Median Family Income was more than $10,000 less than the MFI for the U.S. Not surprisingly, the poverty rates for both locales were also significantly higher than the poverty rate for the country as a whole. The lack of income is primarily explained by an abundance of low-wage work in the state. Forty-two and one-half percent (42.5%) of all working families in Mississippi are low-income – the highest rate in the nation. Mississippi ranks in the bottom decile of states by rate of jobs that paid below-poverty wages. Over a third of the jobs in Mississippi pay below-poverty wages.[5]

The prevalence of low-wage work, especially on the Gulf Coast, is partially explained by the gains made within the hospitality industry. The total number of hotel jobs tripled in Mississippi during the 1990s – the second highest rate in the nation. Industry growth did not translate into high-wage jobs. On average, hotel workers in Mississippi earned $20,190 a year.[6]

The second aspect of poverty illustrated in Table 1 is a lack of assets. According to the Joint Center for Housing Studies at Harvard University, "home equity is the cornerstone of household wealth for most Americans."[7] Yet, the rates of home ownership and home values in Biloxi and Gulfport trailed the rates and values for the rest of the nation. Many of the Gulf Region's residents possessed limited assets on the eve of the storm.

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[1] http://www.dhs.gov/interweb/assetlibrary/katrina.htm
[2] http://www.electricity.doe.gov/documents/katrina_083005_1000.pdf
[3] Mokry, Benjamin "Estimate of Homes Destroyed or Damaged by Hurricane Katrina in Mississippi" Mississippi Home Corporation: Jackson, MS. October 2005.
[4] "The Macroeconomic and Budgetary Effects of Hurricanes Katrina and Rita: An Update" www.cbo.gov. September 2005.
[5] Waldron, Tom, Brandon Roberts and Andrew Reamer "Working Hard, Falling Short: America's Working Families and the Pursuit of Economic Security" Annie E. Casey Foundation: Baltimore, MD. October 2004.
[6] Wial, Howard and Jeff Ricket "The State of U.S. Industries – U.S. Hotels and their Workers: Room for Improvement" AFL-CIO Working for America Institute: Washington, DC. September 2002.
[7] Belsky, Eric S., Nicholas Retsinas and Mark Duda "The Financial Returns to Low-Income Homeownership" Joint Center for Housing Studies, Harvard University. Copyright President and Fellows of Harvard College. September 2005.

During a crisis, assets – such as an emergency fund or home equity – can be used to cover expenses associated with disaster and/or interruption of work. While there are no studies on the asset levels of Katrina evacuees relative to those who did not evacuate, it is evident that the majority of residents who did not evacuate had low asset levels.

Extensive media coverage following Hurricane Katrina revealed that many of the residents who did not evacuate were African-American. Table 2 shows that African-American residents of the Gulf Region had significantly lower levels of assets relative to the levels in the region overall as illustrated in Table 1.

Table 2
Selected Socio-Economic Characteristics for African Americans
In Hurricane-Affected Areas

	Biloxi, MS	Gulfport, MS
Median Family Income	$28,485	$26,528
Poverty Rate	27.3%	29.2%
Home Ownership Rate	29.6%	48.7%
Median Home Value	$65,000	$63,800

Source: U.S. Census 2000

Given the disproportionate lack of assets among the region's African-American population, the images reflected in media coverage were not surprising. News reports merely highlighted the lack of a safety net, which limited options for many low-wealth people who were in the hurricane's path.

A discussion of assets is extremely pertinent within the context of hurricane rebuilding and recovery. Beyond race or class, the presence or absence of assets and insurance will play a significant role in determining who participates in the long-term rebuilding of the Gulf Region. Over 90% of the homes in Harrison County (Biloxi and Gulfport) did not have flood insurance.[8] Homeowners without significant assets and flood insurance face a huge affordability gap between covering existing mortgage payments and paying to rebuild. As 90-day mortgage grace periods have expired, those without reserves or pending insurance payments risk foreclosure and the disappearance of their equity. Even those who may not face foreclosure have already experienced the loss of their only major asset, and likely all or most of the equity they may have spent years building up.

Moving Forward – Recommendations for Rebuilding

How will the poor and uninsured afford to return to their homes? Who will help people without insurance bridge the affordability gap – especially when most sources of capital are risk averse, and government aid programs are slow to move? How will renters who have lost all of their possessions rebuild their lives? In order to create a more equitable region, rebuilding strategies must answer these questions and provide people with the tools necessary to acquire and preserve assets. Moreover, strategies that promote access to jobs and homes must occur in concert. While job growth in a few specific sectors is beginning to outpace the available labor in some markets, job losses are much more widely felt, and housing options – especially affordable housing – are limited.[9]

Along with individuals and for-profit businesses, not-for-profit organizations experienced significant losses during the hurricanes, and must be supported in their recovery and rebuilding efforts. A strong

[8] John, David C. "Providing Flood Insurance After a Disaster is a Mistake" The Heritage Foundation: Washington DC. October 19, 2005. www.heritage.org/Research/Regulation/wm888.cfm

[9] See Rivilin, Gary "New Orleans Hunts Workers" International Herald Tribune. November 11, 2005. www.iht.com/articles/2005/11/11/business/katrina.php for examples of $6,000 signing bonuses at Burger King and $30 per hour demolition jobs.

nonprofit sector provides vital services to low-wealth populations. These services include job training, homebuyer education, health care, mental health counseling, and others that will be essential to the region's recovery. Nonprofits also are an important driver of the region's economy. Little, if any, disaster aid is earmarked for not-for-profit organizations, even though many have depleted their reserves while providing relief services.

Jobs

Employment over a vast area disappeared after the hurricanes. According to the Congressional Budget Office, after Hurricane Katrina, "about 265,000 workers were employed within a half mile of the storm-damaged areas in Louisiana and Mississippi."[10] However, growth in the construction sector is expected to be vast. In fact, the Congressional Budget Office estimates that the "rebuilding efforts appear likely to fully offset all of the reduction in employment in the first half of 2006."[11] Still, a mismatch exists between the skills required to participate in recovery-related jobs and the skills of evacuees. For example, a person with 10 years of experience working in a hotel does not necessarily have the skills to demolish and rebuild commercial and residential property. In addition, geographic mismatches between housing patterns and employment opportunities are also likely to occur.

Many of the jobs lost were from small businesses. Recovery of the small business sector will be critical for the long-term viability of the region. However, recovery statistics for small businesses are not favorable. According to the Association of Small Business Development Centers the survival rate for small businesses after a disaster is typically 40%. Low reserves, physical plant concentration and reliance on customers also affected by the disaster limit small business recovery. Disaster relief is also less likely to make its way to small businesses. Even the SBA disaster loan program is too cumbersome and drawn out to provide timely and meaningful support.

Jobs provide the primary means for people to build assets – an income. To address the needs of prospective employees and small business owners, a jobs strategy must include access to workforce training and capital. The following recommendations address some of the issues related to jobs:

Engage community colleges and nonprofits to implement workforce development programs that equip people to participate in the impending construction boom and that prepare them for the jobs that emerge as the restructured economy takes shape

Undoubtedly, construction activity in the Gulf Region will generate job opportunities for several years. Furthermore, construction jobs, especially those funded by federal contracts, should pay prevailing wages.[12] As the region evolves, new industries and related job opportunities will also emerge. Assessments of the emerging business sectors and related jobs that will develop in the Gulf Region must be made, and programs put in place that will train local residents, across race and gender, to participate in the rebuilding of the region and in its long-term economy. For many evacuees, such training and job prospects will be essential in enabling them to return to their communities.

Housing

Housing challenges present the most significant obstacles to rebuilding the Gulf Region. In the short term, the limited housing stock spared from the storm has experienced rapid price appreciation and is unaffordable for most residents. Many people without insurance will also face challenges paying a mortgage and covering the high cost of rebuilding. Those who experience mortgage defaults will be unable to obtain financing for another home loan even if they possessed a strong credit record before the storm. The inability to obtain a mortgage will then hamper their long-term prospects for building assets

[10] "The Macroeconomic and Budgetary Effects of Hurricanes Katrina and Rita: An Update" www.cbo.gov. September 2005.
[11] Ibid.
[12] On October 26, 2005 the Davis Bacon Act was restored after a temporary suspension in the hardest hurricane hit areas of Alabama, Louisiana and Mississippi.

through home equity. Simultaneously, given the high cost of housing, foreclosed properties represent an opportunity for widespread gentrification across the region if developers acquire the properties at low prices.

A combination of grants and loans for home purchase, construction and repair will be needed to enable residents to rebuild their home equity, and to extend the benefits of home ownership to people who had previously rented. The following recommendations address the primary issues related to housing:

Target CDBG disaster recovery and/or HOME fund grants for home rehabilitation and to support home ownership among low-income residents

Existing programs such as the CDBG disaster relief are well suited to provide grants to rehab damaged homes and to assist homeowners who experience gaps in insurance and FEMA coverage.[13] The passage of the bill which will allow $11 billion in CDBG funds for Mississippi and Louisiana was a boost to the region. The significant challenge is now to determine who will qualify for the funds and how they will be allocated. Federal dollars which are spent unwisely can do as much damage as good. These funds should be used as forgivable second mortgages to make home ownership affordable and to help residents build equity. To insure that public resources benefit those most in need, a percentage of subsidy funds should be dedicated to assist very low-income residents, particularly renters seeking to become homeowners. The funds must be tracked to ensure they are spent for the purpose intended. Writing large checks to families with damage will not necessarily solve the housing problems on the coast. Elevation issues must be considered as well as finding and employing a reputable contractor and ensuring the work is done to local building code standards. FEMA funds as well as insurance settlements must be accounted for. A project manager must be in place to oversee the expenditure of these significant public funds and provide counseling and construction services to those who need them.

Offer flexible mortgage products that accommodate hurricane-specific challenges

Existing mortgage programs will serve some, but not all, residents. Insurance settlements can be held up for FEMA resolutions, which have taken as long as 36 months in past situations, and SBA programs are restricted to repair and replacement of the original structure (I don't think that's right, SBA loans can be used for purchase of another home if the borrower's home was destroyed by the storm). Many low-income homeowners are likely to be uninsured or underinsured, while renters generally have limited cash for down payments. In addition, borrowers will face difficulty meeting traditional mortgage criteria due to hurricane-related issues such as unsettled insurance claims on existing mortgages, or late payments due to income disruption. Even people with strong credit may lose their homes due to the inability to simultaneously pay for an existing mortgage, temporary housing and rebuilding costs. The flooding caused by the hurricanes in non-flood zones, where flood insurance was almost non-existent, has only exacerbated the problems.

Mortgage products with flexible underwriting features, which take into account a borrower's pre-hurricane credit history and factor in other effects of the disaster, will be needed to insure that low-income individuals and families participate in the long-term recovery of their communities. These products could be used by those facing mortgage defaults or foreclosure, or who have no other means to purchase a home. For example, the loss of a job combined with overwhelming repair costs may render an individual unable to make mortgage payments for several months. Even if these are the only debt payments missed by this borrower in years, they may face foreclose on the home. Regardless of whether the mortgage holder forecloses on the property, the individual's credit score drops to a level at which he or she cannot refinance the property or qualify for a new mortgage loan – despite the absence of previous credit problems. The only way to reenter home ownership is through a flexible, non-predatory mortgage product.

[13] Fischer, Will and Barbara Sard "Bringing Katrina's Poorest Victims Home" Center on Budget and Policy Priorities: Washington, DC. November 3, 2005.

Nonprofits

On the eve of the storm, the Gulf Region (defined as the Biloxi, Gulfport and Pascagoula MSA and the New Orleans MSA) was home to over 3,300 public charities that employed more than 37,000 people.[14] As did other businesses, nonprofits experienced physical damage, business interruption and the loss of equity. The services of the sector decimated by the storm must be restored to ensure a comprehensive recovery.

Expand small business resources to include nonprofit organizations

Similar to small businesses, nonprofits require flexible, low-cost, long-term capital to rebuild and restart after the disaster. The mixture of loans, grants and wage subsidies made available to small businesses could also be used to assist nonprofit organizations. In addition, nonprofits also require grant funds to address cash flow shortages, depletion of reserves and to make payroll.

Hurricane Katrina wrought widespread and unprecedented destruction in Mississippi and Louisiana, having a particularly devastating impact on low-wealth residents who lacked an economic safety net. At the same time, the storm presented a unique opportunity to correct decades of inequitable development. Affordable housing, home ownership and quality jobs are the cornerstones upon which the region will rebuild for the long term. Investments in jobs and housing strategies that target low-wealth residents will stimulate asset development, and the Gulf will emerge as a stronger, more equitable region.

[14] Center on Nonprofits and Philanthropy – National Center for Charitable Statistics. www.nccs.urban.org