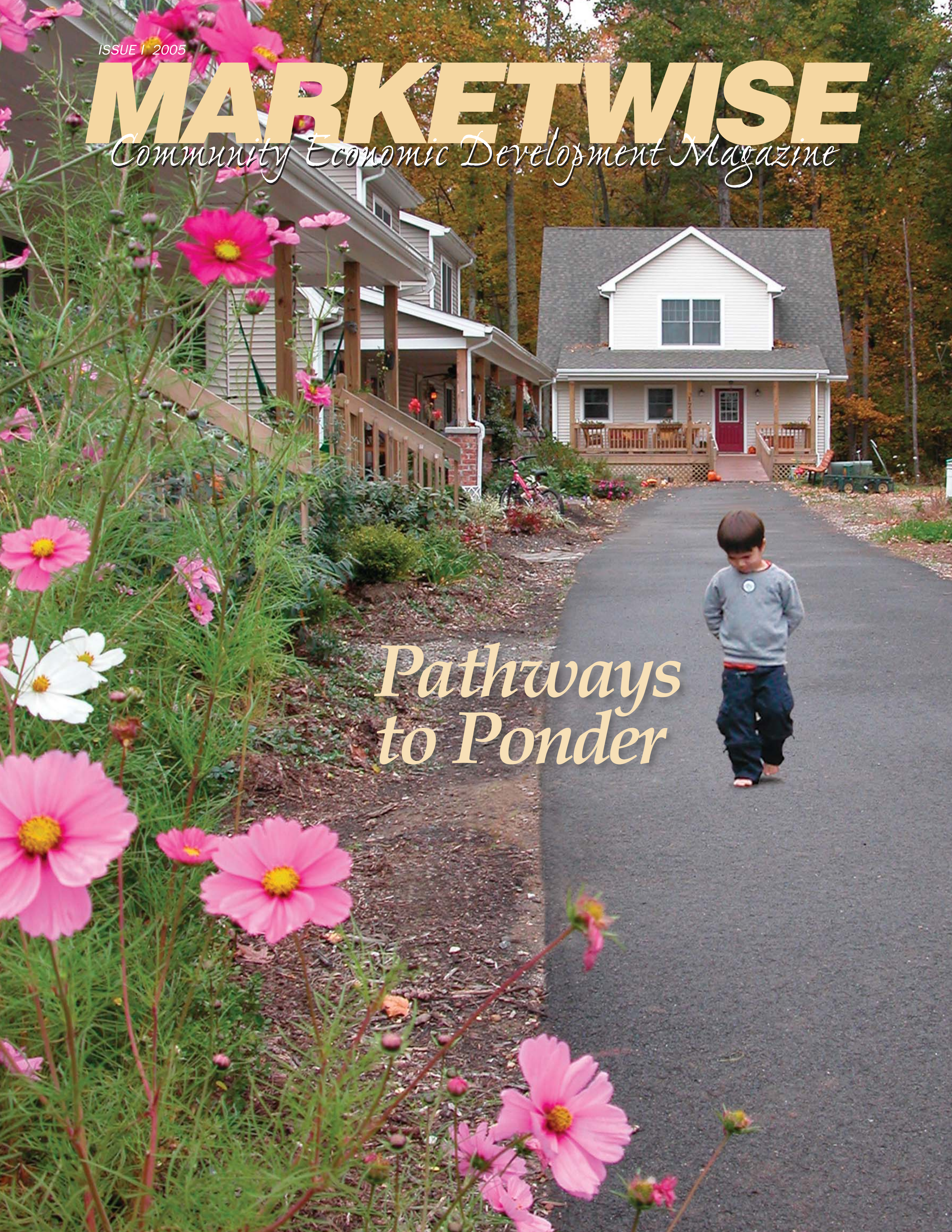
ISSUE I 2005

# MARKETWISE

*Community Economic Development Magazine*



## Pathways to Ponder

# Inside...



# Paths...

to success are neither defined nor guaranteed, especially in the nonprofit world. That's why the value of exploring different avenues can't be underestimated. Community Housing Partners in Christiansburg, Virginia, knows the importance of discovering and even creating different trailways. What started as an entity that provided home repairs to low-income families and seniors in the Appalachian region of southwest Virginia has turned into a multi- state developer of high-quality, environmentally friendly housing. Another nonprofit, Community Link in Charlotte, North Carolina, decided to take a "strategic restructuring journey" and acquired Ujamma Inc., a homeownership counseling organization, to improve and expand customer service delivery. The success of the merger results partly from their desire and willingness to walk down the "unbeaten path."

Finding feasible and affordable ways to pay for community development ventures is a common excursion for nonprofit developers. Financing tools such as low-income housing tax credits, real estate investment trusts and limited liability corporations offer an alternative route to funding community development projects. The City of Baltimore continues down the course of improvement to eradicate excessive quantities of vacant and abandoned housing concentrated in the city through two different projects with a similar purpose. These examples show that voyaging down the road less traveled can be well worth the journey.

Jennie W. Blizzard

*On the cover:* Sylvan Moore enjoys the serenity that Shadowlake Village in Blacksburg, Virginia, offers.


**MARKETWISE**

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# Strengthening Communities and Creating Opportunities

*by Cindy Elmore*

Eighteen-year-old Laurie Ramos left her husband and three children in the Philippines to come to the United States. She was seeking to claim American citizenship and find a better life for her husband and three children. By January 2000, Ramos' life had dramatically changed. She found herself on the brink of homelessness using Section 8 vouchers to rent a run-down apartment in a crime-ridden complex in Yorktown, Virginia. With one American-born son and a baby on the way, Laurie was desperate. She moved into the dilapidated apartment and began praying for a miracle. "When I moved in, I had nothing and I was pregnant, but I had a feeling that something good was going to happen," she said.

Laurie Ramos' instincts were right. In 2001, Community Housing Partners Corporation (CHPC) headed by Janaka Casper purchased the facility and spent $7.2 million rehabilitating the property and creating a family-friendly environment. Home to over 200 children, The Woods at Yorktown now offers a nurturing environment where children can play instead of hiding indoors from gunshots and illegal drug activity. According to property manager, Stacy Honey, "I take this personally. I want this to be a place where everyone's children feel safe."

Reducing the density from 130 to 118 two-, three- and four-bedroom apartments, CHPC offered the residents relocation assistance or temporary housing while renovations took place. The exterior transformation included new fiber cement siding, front porches, rear decks, windows, doors, sidewalks and manicured lawns. CHPC improved the interiors by installing drywall, carpeting, linoleum, kitchen cabinets and energy-efficient appliances.

*Laurie Ramos, a resident of The Woods at Yorktown, cultivates beautiful roses in the front of her home. Each bloom symbolizes her gratefulness for Community Housing Partners Corporation.*

*Stacy Honey, property manager for The Woods at Yorktown, maintains a waiting list for the property because of its affordability and the high quality of living.*


## CHPC has served over 900 families with homebuyer education classes and one-on-one housing counseling programs.

Although the renovation of the Woods at Yorktown is remarkable, the rest of Laurie Ramos' story depicts the true essence of CHPC. Not only does Ramos live in a CHPC community, but she also works for the organization. Each morning when her boys leave for school, Ramos works diligently to keep the grounds of her community in pristine condition. Like the flowers in front of her home, Ramos and her family have bloomed in their new community.

### From Home Repairs to Multi-State Initiatives

CHPC grew out of a volunteer effort in 1975 called Project Home Repair which provided simple home repairs for low-income families and seniors in the Appalachian region of southwest Virginia. The group expanded its efforts by providing weatherization and officially organized as Virginia Mountain Housing in 1975. According to Bob Adams, chief operating officer and executive vice president of CHPC, "Our weatherization program was among the first and has grown to be the largest in Virginia." The organization soon began home repairs and renovation, evolving into a Class A general contracting business. "Our history has centered around the simple concept of creating opportunities for low-income people to have better lives," said Adams.

In 1984, CHPC entered the rental housing preservation market, adding complementary property management in 1988. The organization also expanded its service area in the 1980s to include the entire state of Virginia and changed its name from Virginia Mountain Housing to VMH, Inc.

CHPC began an active homeownership program in 1989. Since that time, the organization has built 73 new homes in southwest Virginia. In addition, they have acquired, rehabilitated and sold 200 homes in the Hampton Roads area of Virginia.

Expanding its reach in 1990, CHPC opened a development office in Florida and began pursuing opportunities in neighboring states. By the mid-1990s, CHPC focused its efforts on acquiring and renovating existing housing stock in Virginia. The organization also began purchasing, upgrading and managing older apartment communities.


*Taking advantage of one of the amenities at The Woods at Yorktown, babysitter Milena McDowell entertains Montrey Bonds (left) and Feriza Brown (right) on the playground.*

Extending its scope, CHPC opened Tekoa, Inc., a residential treatment center and school for at-risk youth in 1994. "There was a need in the New River Valley. We took it on as a mission," said Adams. To promote economic development, the organization created the New Enterprise Fund, a subsidiary community development financial institution (CDFI), in 1995. As a result of its broad service area and wide range of services, the organization changed its name in 2001 to Community Housing Partners Corporation.

Today, CHPC's staff of 300 includes individuals with expertise in project development, architectural design, financial management and planning, property management, housing counseling, real estate development, supportive services and enterprise lending. The organization serves

*Janaka Casper, President*
*Community Housing Partners Corporation*

more than 3,000 families and individuals in 27 preservation properties and 13 new developments in Virginia and Florida. In addition, CHPC has created more than 200 jobs by lending $1.3 million to small businesses and helped 65 low- to moderate-income people save more than $45,000 through individual development accounts.

In 2002, the John D. and Catherine T. MacArthur Foundation selected CHPC to receive a $2 million program-related, long-term investment loan. Recognizing the organization's extensive range of affordable housing programs and services for low- to moderate-income families, the Virginia Department of Housing and Community Development also honored CHPC in 2003 with an award for the "Best Housing Organization" in Virginia.

### Quiet Leadership

The leadership style of CHPC president Janaka Casper trickles down throughout the organization. A quiet, unassuming man, Casper's passion mixed with innovation shows through as soon as the topic of affordable housing arises. According to Jane Henderson, a CHPC board member and senior vice president and director of community development at Wachovia Corporation, "Janaka's style should never be confused as a lack of commitment and passion. He can be a very strong, passionate voice for the underserved and for fairness. I have seen him debate 'not in my backyard' and funding issues with regulators, neighbors, activists and developers. I have seen him persuade some of the most entrenched opponents."

Casper's career with CHPC began in June 1976 as a volunteer for Project Home Repair. "I just did a friend a favor," he remembered. Initially, helping fix a porch led to other volunteer projects with the group. "I realized quickly that I was not helping others, but myself," said Casper. "A man named Junior Benjamin changed my life. He made me realize that by helping others, you can know the right direction to take."

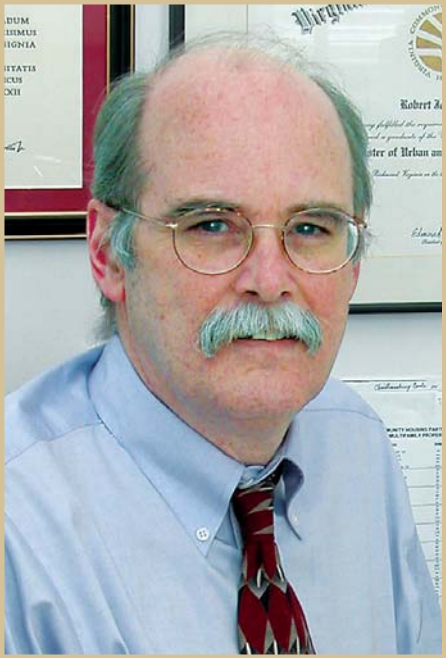
With creative thinking, Casper has grown his organization from a local community development corporation to one of the largest nonprofit housing providers in the nation. "We have touched 120,000 lives. Our goal by the end of the decade is to double that number. In some small way, we allow people to achieve individual goals by obtaining sustainable housing. We celebrate the success that we have had in helping others," said Casper.

Pointing to Casper's successful leadership style, CHPC chairman of the board, Dr. Ted Koebel said, "Janaka has always been the inspirational leader of CHPC. He has the wisdom and talent to attract highly qualified people to the organization. He is widely recognized for his personal integrity and commitment to the mission of nonprofit housing, which is to improve people's lives," he said. "But equally impressive is his emergence as a business leader, setting strong goals for corporate performance. It is rare to find someone who can be a champion of both doing good and doing it well as a business."

### Secrets to Success

Leaders at CHPC attribute the organization's success to its people, a working strategic plan, a vertically integrated business strategy and its capacity to complete large scale developments. However, CHPC's leadership

> **"In some small way, we allow people to achieve individual goals by obtaining sustainable housing. We celebrate the success that we have had in helping others."**
>
> *Janaka Casper*



*Bob Adams, Chief Operating Officer*
*Community Housing Partners Corporation*

*Jane Henderson, Board Member*
*Community Housing Partners Corporation*

*Dr. Ted Koebel, Chairman of the Board*
*Community Housing Partners Corporation*

agrees that the organization's staff deserves the credit for CHPC's accomplishments. "The secret to CHPC's success is good, talented people. I'd repeat that about five times before I'd mention anything else," said Koebel.

At every level of its organizational structure, CHPC management and staff are open to change and constantly seek innovative ways to carry out the mission of providing affordable housing. "We have a diverse staff and have been very nimble and forward looking. They always have been willing to change to meet new needs," said Casper.

After participating in an 18-month course from Harvard University's Hauser Center for Nonprofit Organizations, Casper began utilizing CHPC's strategic planning process in a different fashion. "We always did strategic planning, but it was not a living document," explained Casper. The organization now has seven goals which are centered around production, relationships and internal efficiencies. "It's a different way of doing business and it turns up the heat on meeting goals," said Casper.

Since the integration of the strategic plan throughout CHPC, "The organization has taken a huge leap forward," said Casper. "We were talking about change in culture. People had to take responsibility on all levels." According to Casper, success resulted from measuring progress at monthly meetings and constantly evaluating operations to ensure that they were in line with the vision. "We went through every program and rated it against financial performance and our mission," said Casper. "We let some lines of business go and sold assets that didn't fit the mission."

Today, CHPC also runs on a strict business model that is vertically integrated. They handle the design, building, property management and resident services for their multi-family facilities. In addition, the organization is continually analyzing to ensure that projects are financially sound. "We were on a feast and famine cycle. We diversified our operations and developed a more sustainable business model," said Casper. According to Adams, "We are larger than the average CDC. We have been pioneers in the dimension that a nonprofit community development organization can operate like a business and still be true to its mission."

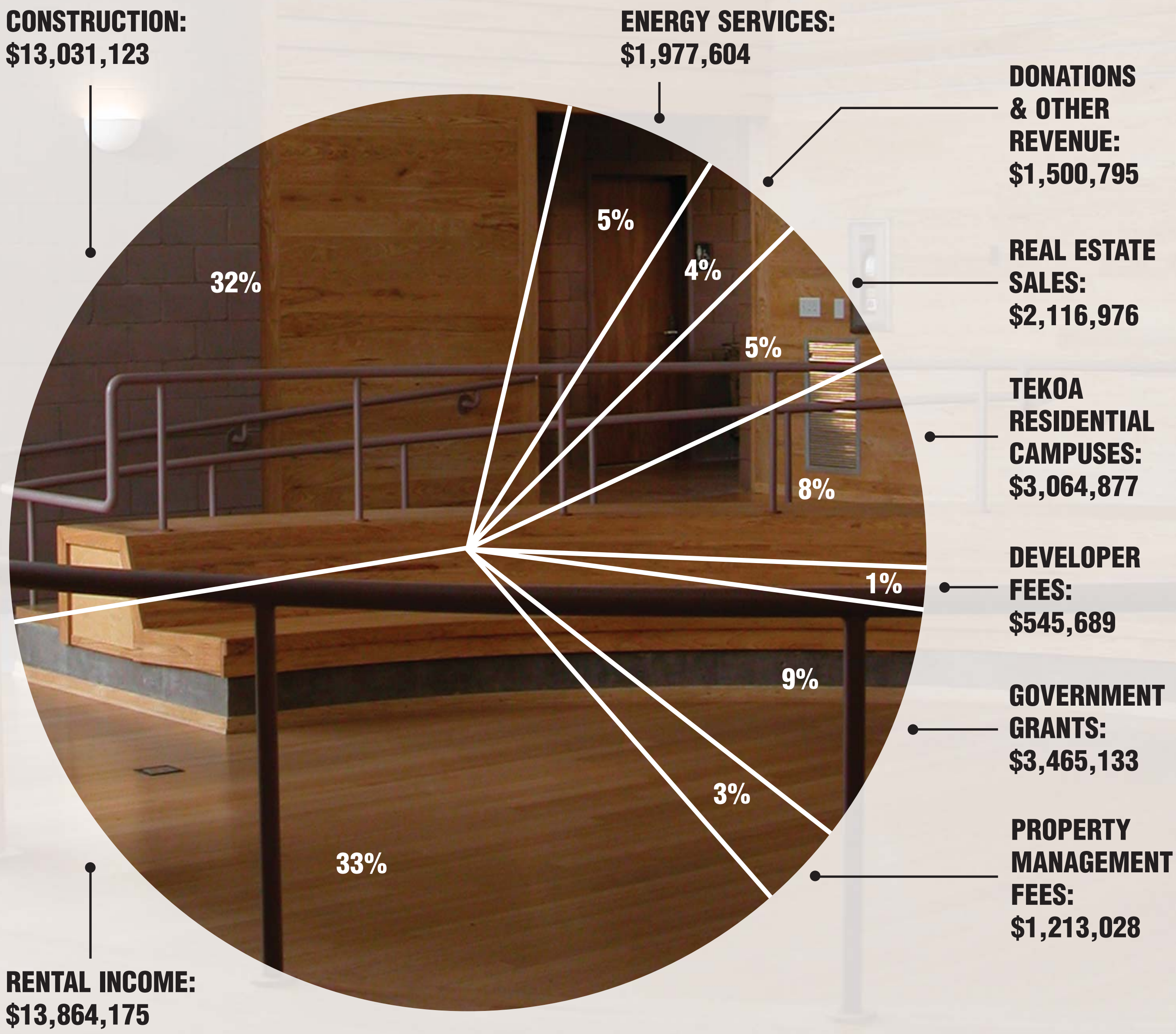
### Focus on Sustainability

CHPC has been committed to making financial and environmental sustainability a reality for individuals and communities. In 2003, CHPC implemented its "Down to Earth" campaign, which focused on increasing the awareness of sustainable practices and developing ways of implementing the organization's principles of sustainability. "The Down to Earth initiative is not just another recycling campaign. It is a long-term, wide-reaching effort that focuses on sustainability in every service area in our organization. As a company, we are committed to pursuing development that meets the needs of the present generation without endangering the needs of future generations. All of our employees are encouraged to focus on developing sustainable practices in their every day work environments," said Casper.

The organization's efforts include designing and building new housing and preserving existing developments through the utilization of green building techniques; helping low-income homeowners use energy more efficiently to save money and protect the environment; training contractors to utilize and install energy-efficient heating and cooling systems; helping at-risk youth become more productive members of their communities with a profound respect for the environment; helping individuals save money for education, a home or a new business; and providing loans to small businesses that create jobs. According to Casper, "We are trying to be good stewards. We try to not damage the environment while considering the social and economic impact of what we do."

*(continued on page 8)*

**2004 REVENUE SOURCES**



**Primary Development Funding Sources**

- NeighborWorks America
- VA Housing Development Authority
- VA Department of Housing and Community Development
- Fannie Mae Foundation
- MacArthur Foundation
- Low-Income Housing Tax Credits
- Private Bank Financing
- Secondary Market Financing

# DEVELOPMENT SUMMARY
# COMMUNITY HOUSING PARTNERS CORPORATION

*The following tables illustrate Community Housing Partners Corporation's affordable housing development projects involving new construction, acquisition and/or rehabilitation activity.*

## Affordable Housing Developments Completed Since 1998

| Property Name | Location | Units | Development Cost |
|---|---|---|---|
| Ansell Gardens | Portsmouth, VA | 78 | $4,637,711 |
| Battleground Apartments | Saltville, VA | 24 | $1,220,914 |
| Belford Commons | Emporia, VA | 23 | $1,236,125 |
| Bluegrass Apartments | Pulaski, VA | 40 | $2,210,000 |
| Brick Row/Sally's House | Pulaski, VA | 10 | $1,001,951 |
| Canterbury | Chesapeake, VA | 30 | $1,909,120 |
| Cedar Crest I | Blacksburg, VA | 26 | $2,841,085 |
| Cedar Crest II | Blacksburg, VA | 24 | $2,533,231 |
| Cedar Crest III | Blacksburg, VA | 28 | $3,243,701 |
| College Hill Homes | Lynchburg, VA | 28 | $2,816,283 |
| Crossings at Leesburg | Leesburg, FL | 168 | $14,583,557 |
| Grayson Manor | Independence, VA | 32 | $1,754,430 |
| Horizon House | Gainesville, FL | 40 | $1,934,144 |
| Lee Street Townhouses | Bowling Green, VA | 18 | $866,999 |
| Lynnhaven Landing | Virginia Beach, VA | 252 | $2,230,000 |
| Normandy Apartments | Jacksonville, FL | 100 | $2,150,000 |
| Northway | Galax, VA | 72 | $3,589,140 |
| Orchard Grove | Pearisburg, VA | 30 | $3,006,896 |
| Pinebrook Apartments | Richmond, VA | 144 | $3,165,977 |
| Westbridge Apartments | Chesapeake, VA | 60 | $3,130,076 |
| Westover Commons | Petersburg, VA | 84 | $3,933,230 |
| Woods at Yorktown | Yorktown, VA | 118 | $7,394,042 |
| | **Total** | **1,429** | **$71,388,612** |

## Affordable Housing Developments Under Construction

| Property Name | Location | Units | Development Cost |
|---|---|---|---|
| Central City Homes | Lynchburg, VA | 37 | $3,772,241 |
| Checed Warwick | Newport News, VA | 48 | $4,595,184 |
| Church Manor | Smithfield, VA | 50 | $3,727,748 |
| College Green I | Warsaw, VA | 32 | $1,854,416 |
| Honeytree | South Boston, VA | 48 | $2,810,131 |
| Meadowview | Pulaski, VA | 98 | $5,465,479 |
| Sentry Woods | Dinwiddie, VA | 30 | $2,098,688 |
| Silver Pointe | Leesburg, FL | 138 | $11,575,614 |
| Sunrise Place | Tallahassee, FL | 99 | $3,733,314 |
| Sunset Apartments | Gainesville, FL | 40 | $1,934,144 |
| | **Total** | **620** | **$41,566,959** |

## Affordable Housing Developments Currently Under Development

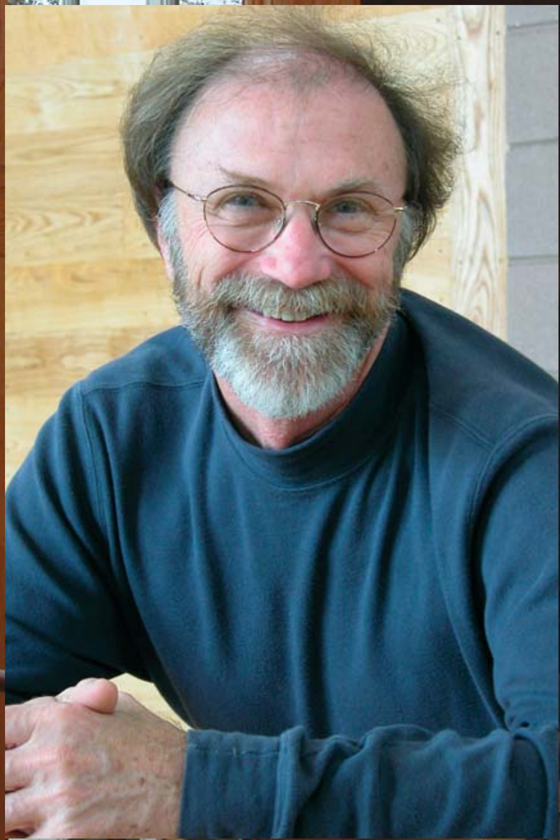
| Property Name | Location | Units | Development Cost |
|---|---|---|---|
| College Green II | Warsaw, VA | 16 | $1,102,175 |
| Courthouse Green | Spotsylvania, VA | 40 | $2,819,026 |
| Johnson Williams II | Berryville, VA | 28 | $1,900,000 |
| Lafayette Apartments | Williamsburg, VA | 112 | $10,517,000 |
| Lafayette Elderly | Williamsburg, VA | 32 | $3,374,221 |
| Lafayette Square | Williamsburg, VA | 106 | $9,948,752 |
| Montross Apartments | Montross, VA | 16 | $1,071,268 |
| Normandy Apartments | Jacksonville, FL | 100 | $5,600,000 |
| Rappahannock Apartments | Tappahannock, VA | 30 | $1,808,356 |
| Rivermeade I & II | Yorktown, VA | 80 | $5,215,000 |
| Spicers Mill | Orange, VA | 40 | $2,523,600 |
| Yorktown Square I & II | Yorktown, VA | 116 | $6,138,994 |
| | **Total** | **716** | **$52,018,392** |


*A participant in the equine program at Tekoa, Chazz McFalls shows off his horse show ribbons and certificate for completing the Junior Vet Program.*

Showcasing its commitment to sustainability, CHPC founded Tekoa, Inc. in 1994. Tekoa includes three residential facilities, the CommUnity School and an equine experiential program and another small home in Christiansburg. Funded by a community development block grant of $700,000 and other private sources, the Tekoa boys' residential campus is designed around a private outdoor courtyard. The environmentally friendly building blends with its surroundings providing a secure and peaceful place for the residents to re-establish their lives. "Tekoa is a place where students can slow down and take inventory of their lives," says Bob Sisk, vice president and director of Tekoa. The ultimate goal of the 18-month program is to promote individual competency and family reunification. Ultimately, the efforts contribute to building safer, healthier, sustainable communities. Committed to its principles, Casper says, "Tekoa will serve as a model to promote sustainable practices."

### Serving Residents

Many residents of CHPC properties receive additional assistance ranging from GED and computer classes to credit counseling and money management courses. Henderson believes that CHPC takes a holistic approach that assists people with more than just a place to live. "What makes us unique is that our mission does not stop at the front door of the new house. We have a



*Bob Sisk, vice president and director of Tekoa, takes students in need of out-of-home placement and gives them individualized education, intense counseling, life skills training and opportunities for community service.*

*Meeting the need for affordable housing in Lynchburg, Virginia, Vickie Stowe-Ransom (standing), property manager for College Hill Homes, makes sure that residents like Juanita Hicks have someone to call around the clock.*

whole division dedicated to the services necessary to help people stay in the new home — be it as a homeowner or renter," she says. "We help with social services, work with local police units, teach computer and financial education classes, create community centers and bring in GED training. There's a lot more to safe, affordable housing than simply bricks and mortar — and CHPC is there to try to help."

In 1997, CHPC launched its Resident Integrated Services & Education (RISE) program that combines human services with economic development programming. The goal of the program is to serve more than 10,000 residents of its affordable rental communities in Virginia and Florida. Partnering with community-based service providers, RISE focuses on eight areas of skill development including resource management, family literacy, healthcare, job readiness, technology training, homeownership, personal development and community building.

### Meeting the Market Demand for Multi-family Housing

Since 1984, CHPC has operated a multi-family affordable housing program. According to Casper, typically the lowest income people live in apartments since homeownership is capital intensive. He points to two age groups that need rental housing: young adults and senior citizens. "Homeownership anchors you. Typically, people starting out need to be more mobile," says Casper. However, many seniors require low maintenance housing.

Juanita Hicks, a resident of College Hill Homes in Lynchburg, attended an open house on a Saturday and submitted her application on Monday. "I was passing through and saw the open house. I came in and looked at the apartments and knew that this was a great place for me," said Hicks.

Managing College Hill Homes, Vickie Stowe-Ransom says the property created with a mixture of historic tax credits and low-income housing tax credits meets the needs of senior citizens and single parents with children. The apartments are energy efficient with top-of-the-line heat pumps, new storm windows and free

**"What makes us unique is that our mission does not stop at the front door of the new house. We have a whole division dedicated to the services necessary to help people stay in the new home — be it as a homeowner or renter."**

*Jane Henderson*


***"I am very satisfied here. My apartment is energy efficient and the maintenance is wonderful."***

*Anna Vernon*

weatherproofing. "If the residents need us, we're here any time of the day," says Stowe-Ransom. "Not everyone can own a home. Many older people can't buy or maintain a home. For single parents owning a home in Lynchburg is next to impossible unless you're making more than $50,000."

After selling her home near Culpeper, Virginia, 94-year-old Anna Vernon also found the need for affordable, rental housing. A resident of Cedar Crest in Blacksburg, Virginia, Vernon enjoys her duplex with its many amenities including new appliances and a heat pump. "I am very satisfied here. My apartment is energy efficient and the maintenance is wonderful." After owning a home in the country, she especially enjoys the convenience of living close to shopping areas and her local church.

### *Creating Mixed-Income Communities*

A small group of citizens in the New River Valley turned to CHPC to develop a mixed-income, co-housing neighborhood called Shadowlake Village in 2001. According to Shadowlake resident Lisa Poley, the group began meeting in 1997 and purchased the 33 acres of land on Shadow Lake Road in Blacksburg in 2000. "The concept was to create a traditional village with a central place to congregate. We wanted an old fashioned, small town with a modern twist," said Poley. Since the group also wanted to create a mixed-income community with houses ranging from $115,000 to $250,000 and implement good environmental stewardship, CHPC seemed like the ideal developer.

Project manager, Mark Jackson, said, "CHPC was an integral part of the project. They guided us." In addition to assisting with design and implementing green building techniques, CHPC assisted with financing for low-income residents.

Today, Shadowlake Village consists of 33 homes designed as either detached houses, duplex homes or a row of four townhouses. The community also includes a 5,500-square-foot common house that offers a community kitchen, mail center, playroom and dining room where residents gather for dinner twice a week. Designed to facilitate friendships, parking is on the periphery with open green spaces shared by community members. Pathways flocked by flower gardens lead to homes that are reminiscent of 1920s architecture. With a sense of satisfaction on her face, Poley said, "CHPC got it. They understood what we wanted to do."

*(continued on page 13)*

**"We wanted an old fashioned, small town with a modern twist."**
*Lisa Poley*

*Designed to facilitate friendship, Shadowlake Village promotes community with a common house and shared green space. Next door neighbors, Lisa Poley and Mark Jackson, believe that their children are reaping the benefits of a tight-knit community.*

## CHPC Accomplishments

### Awards

- "2004 Best Development in Virginia," 2004 Governor's Housing Conference
- "2003 Best Housing Organization in Virginia," 2003 Governor's Housing Conference
- "National Recognition Award" U.S. Department of Energy

### High Quality, Environmentally Sustainable Housing

- Acquired, rehabilitated and/or constructed more than 600 affordable rental units
- Expanded property management portfolio to more than 3,500 units, increasing operational efficiency and generating net income of $201,000 to fund operations and programs
- Weatherized more than 790 homes resulting in benefits to more than 1,500 individuals and an average of 37 percent energy savings per home
- Completed three historic preservation projects, saving architecturally significant buildings in declining neighborhoods, resulting in 38 units of housing
- Served as general contractor for more than $6.6 million in multi-family construction, generating $192,000 to fund operations and programs

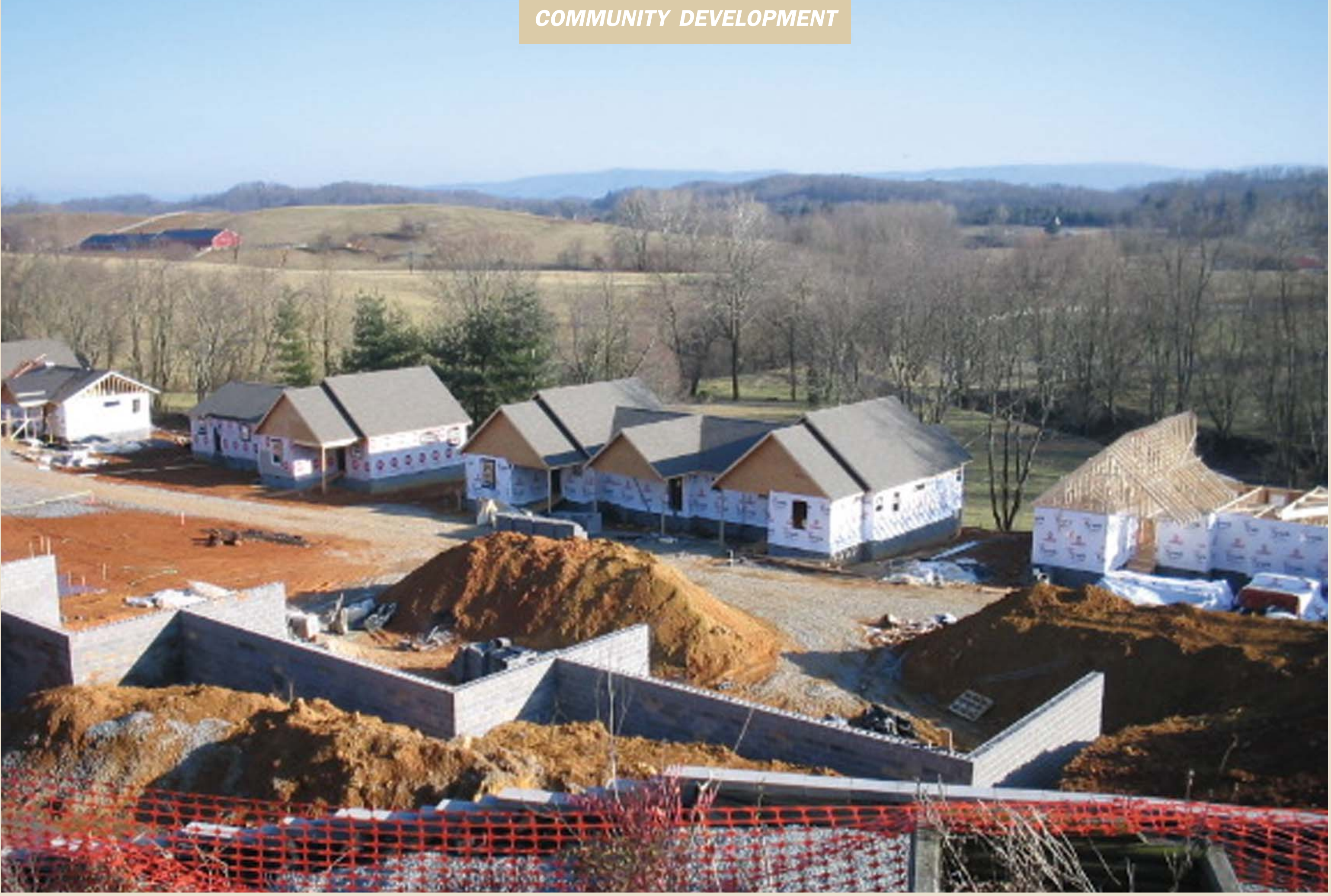
### Comprehensive Community Services

- Provided access to resident services to more than 1,500 individuals
- Opened three HUD-certified Neighborhood Network Centers to bridge the digital divide through computer literacy training, provide after school tutoring/mentoring and job readiness
- Sponsored four CHPC residents to attend a Neighborhood Reinvestment Corporation Leadership Training
- Maintained three Kids' Café feeding sights and three food banks
- Established dozens of active partnerships with faith-based groups, local public schools, businesses, volunteer organizations and universities in five CHPC neighborhoods
- Fostered the creation of active resident councils in five of CHPC's larger, multi-family communities
- Received a 2004 operating grant from the Virginia Commission for National and Community Services to fund 20 AmeriCorps volunteers, increasing the organization's capacity to deliver effective resident services

### Individual and Family Wealth Building

- Provided homeownership counseling to more than 250 families
- Assisted 99 individuals to become new homebuyers
- Helped 65 IDA participants save more than $45,000, eight of whom graduated to purchase new homes
- Placed seven small business loans in rural areas resulting in nine new jobs
- Implemented on-going financial and computer literacy classes utilizing a grant funded by Wachovia
- Created 37 percent savings in energy costs to the 790 families whose homes were weatherized

*Source:* CHPC's Corporate Profile



*ElderSpirit Community in Abingdon, Virginia*

### *Focusing on Economic, Social and Environmental Sustainability*

CHPC's leadership team could reflect on the organization's accomplishments and find satisfaction in their achievement. Instead, Casper, Adams and Koebel take a different approach, constantly looking for better ways to do business. Considered leaders in the community development field, all three men are driven by people's needs and potential.

Conveying a story that encapsulates the spirit of CHPC, Ramos said, "I was outside on the playground with my children when I saw a construction worker. I told him that we needed to have a fence to keep the children from running into the street." Within one week, Ramos' request was fulfilled. A new fence was erected along the edge of the property. Ramos chuckled when she told the story because she did not realize that the presumed construction worker was actually Janaka Casper. Taking time to listen to residents' concerns is all in a day's work for the staff of CHPC. **MW**

# Low-Income Housing Tax Credits Increase Rental Options for Low-Income Families

*by Frances Stanley*

Affordable housing is generally defined as housing that costs no more than 30 percent of a household's income. Research by the Department of Housing and Urban Development (HUD) points out that more than six million renters live in severely distressed housing or pay more than half of their incomes for housing. In numerous markets, a household earning minimum wage can't afford a modest two-bedroom rental. Supply does not meet demand when it comes to affordable housing.

Rental units are the backbone of many low-income communities and are usually the most affordable type of housing for low-income residents. Congress recognized that private sector developers were not building such units because they did not receive enough income to even cover the costs of developing and operating low-income housing projects. As part of the Tax Reform Act of 1986, Congress created the Low-Income Housing Tax Credit (LIHTC) program as an investor subsidy to spur production of low-income housing developments by private investors. Understanding LIHTCs, how they work and what may happen when they expire is advantageous for community development professionals. In addition, banks may tap into Community Reinvestment Act (CRA) credit for accessing LIHTCs.

**Congress recognized that private sector developers were not building such units because they did not receive enough income to even cover the costs of developing and operating low-income housing projects.**

### What is the Low-Income Housing Tax Credit?

Community development tax credits, such as the LIHTC, are used as an incentive to attract equity capital from investors, including financial institutions, into communities to provide rental housing for low-income families. The LIHTC allows the federal government to provide tax incentives to investors to provide equity capital to facilitate the construction of new rental housing and the acquisition of existing rental housing.

The LIHTC is one of only three federal programs that fund new construction of affordable rental housing for households whose income is at or below specific income levels. In most cases, the LIHTC is used as the primary vehicle for production of new or rehabilitated rental housing for low-income families. The other two programs include Supportive Housing for the Elderly and HOME Investment Partnerships Programs (HOME). Without the LIHTC, it would be economically impossible in most markets for developers to construct or rehabilitate rental housing affordable to the area's low-income households.

### How Does the LIHTC Work?

The LIHTC program is jointly administered by the Internal Revenue Service (IRS) and individual states. Annually, the IRS allocates tax credits to each state with the allocated tax credit equal to a specific dollar amount per state resident. This rate is adjusted for inflation each year. In 2003, it was $1.75 per state resident. Under Section 42 of the IRS code, states are then responsible for determining which projects in their state will receive LIHTCs and the amount of tax credits each state should receive.

LIHTC projects usually involve three main entities in addition to the IRS and individual states: developers, investors and syndicators. The syndicators act as

brokers of credit for multiple developers and investors, establishing equity funds that finance multiple projects. Developers can be both nonprofit and for-profit. To apply for tax credits, developers submit proposals to the state agency responsible for the LIHTC program. The proposal describes the housing project, indicates how much it will cost, and identifies sources and uses of funds available to finance the development and operations.

**_Understanding LIHTCs, how they work and what may happen when they expire is advantageous for community development professionals._**

The proposal also must identify the total number of units in the project and the number of units expected to qualify. Developers are required to follow one of two formulas to qualify for tax credits. They can either rent 40 percent of their units to tenants with incomes equal or less than 60 percent of the area median income or can rent 20 percent of their units to residents earning 50 percent or less of the area median income. Rent prices, including the utility charges, are restricted for tenants of the low-income units to 30 percent of either the 50 percent of the area median income or 60 percent of the area median income, depending on the formula chosen by the developer.

*LIHTCs have allowed Community Housing Partners Corporation to build College Hill Homes, affordable rental units, in Lynchburg, Virginia.*

development costs for the project and the non-tax credit financing sources, such as mortgages on the project, which would be expected to be repaid from rent. By using the sale of tax credits and then borrowing less from financial institutions that must be repaid, developers are able to lower rents for the units.

For many developers, multiple sources of funding are needed. They use the LIHTC to attract additional federal money, such as HOME, community development block grants (CDBGs) and private financing to make the project viable. Additional rental assistance funding is also needed for many individual households so they can afford to live in their LIHTC unit. This additional assistance is needed because often the rental fee, based on the 30 percent of the 50 or 60 percent of the area median income, is often higher than 30 percent of the individual's income. Without the additional assistance, the LIHTC units would not be affordable.

To determine the maximum rents, the median income for the county or metropolitan statistical area (MSA) published by HUD is multiplied by 0.60 or 0.50 to adjust the median income for the project unit rent. This calculation is based on a family of four. Smaller family sizes are adjusted by an appropriate factor. This figure is then multiplied by 30 percent to determine the cap on the rent charged.

When selecting proposals for tax credit awards, the state evaluates the proposal against the state's qualified allocation plan, which includes a method that helps rank projects. In most cases the method gives preference to projects that serve the lowest income residents and proposes the set-aside for low-income units for the longest period.

After the state awards the developer tax credit allocations, developers typically sell them to private investors or syndicators. Tax credit investors are typically large corporations and banks who use the credits as a dollar-for-dollar reduction in their federal corporate tax liability, redeemable over a 10-year period. The advantage of using syndicators is that they can invest in portions of funds and spread the risk across several projects.

Basically, the money raised for the sale of tax credits to investors is used as equity financing for the portion of the cost of developing the required low-income units. In essence, the equity financing fills the gap between the

### States and LIHTCs

States follow the general guidelines established by the IRS but are allowed to set specific allocation criteria for awarding the credits. The qualified allocation plan, required for each state, varies widely from state to state. In Virginia, allocations are available as two types of credits: competitive (9 percent) that are allocated once a year and tax-exempt (4 percent) that are available anytime. In West Virginia, there are three types of credits available: new construction (9 percent), substantial rehabilitation (9 percent) and acquisition (4 percent). This means that the owner is eligible to receive an allocation of an annual housing credit dollar amount of up to 9 percent of the qualified basis of each unit.

The state's role does not end after the allocation. States are required to monitor LIHTC projects for compliance with the income requirements and the physical conditions of the units. LIHTC projects require a considerable amount of oversight to ensure compliance with federal regulations over the 15-year minimum compliance period. In noncompliance situations, the IRS may recapture or deny credit for previously used or issued tax credits.

The Enterprise Foundation ranks the top 20 states in producing affordable rental housing using LIHTCs from 1987 to 2001. Of the states in the Fifth District, Virginia ranks 8th, North Carolina ranks 13th and Maryland ranks 15th. *(See Table 1)* The estimated 2004 tax credit allocations for each of the states in the Fifth District are as follows: DC at $2,030,000; Maryland at $9,824,647; North Carolina at $14,086,298; South Carolina at

$7,500,000; Virginia at $13,150,000; and West Virginia at $5,000,000.

### What Is Year 15? The Expiration of LIHTC Projects

Year 15 refers to a variety of overlapping events that impact a property's ownership and regulation after its first 15 years of operation. At this point, the compliance period for tax credits will expire; developers can liquidate their interest in the partnership; early tax credit properties, if not restricted by other requirements, will be eligible to raise rents and may potentially lose their affordability; and the IRS ceases its program compliance monitoring and enforcement oversight of properties.

National observers have emphasized that Year 15 poses a special threat to early tax credit properties with expiring rent restrictions, such as units that were typically built between the late 1980s and the early 1990s. Many national observers believe the properties that are at the greatest risk of losing their affordability status are those in urban housing markets where owners will have the ability to increase rents.

Peter Ponne, senior vice president and manager of SunTrust CDC, Mid-Atlantic Region, indicated that the changes that will occur are a typical real estate event. *(See more about Ponne on page 48.)* He said that one third of the units will do well and go market rate. One third of the units will be average and will depend on their location and physical state of the units as to their market-rate possibilities. One third of the units will need significant repair. According to Ponne, success will also depend on the people involved. Some of the developments that need significant repair will be taken over by very capable nonprofits to add to their own portfolios. With these units, there may be ways to recapitalize and use tax credits to rehabilitate the properties. Each unit will be dealt with differently, as the compliance period ends. Larger nonprofits will have the ability to take over the projects; smaller nonprofits will more than likely, not have the resources to take the property.

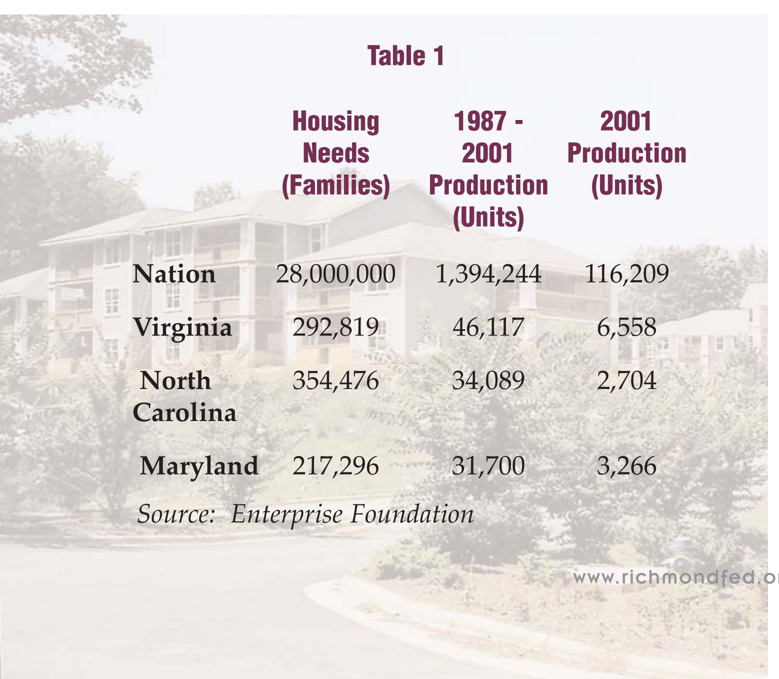


**Table 1**

| | Housing Needs (Families) | 1987 - 2001 Production (Units) | 2001 Production (Units) |
|---|---|---|---|
| Nation | 28,000,000 | 1,394,244 | 116,209 |
| Virginia | 292,819 | 46,117 | 6,558 |
| North Carolina | 354,476 | 34,089 | 2,704 |
| Maryland | 217,296 | 31,700 | 3,266 |

*Source: Enterprise Foundation*

In 1989, Congress saw the need to have these projects remain affordable for a longer period than 15 years and amended the legislative language from 15 to 30 years. Property owners now may elect to end the low-income restriction on units financed by tax credit-backed dollars after 15 years or could choose to continue compliance for 30 years. The minimum set-aside requirement must be satisfied throughout the 15-year compliance period to avoid the reduction of credits and/or the recapture of credits previously claimed.

### LIHTCs, CRA and Financial Institutions

CRA encourages financial institutions to launch innovative partnerships to bring funds to low-income communities and create new business opportunities for financial institutions. Investing in a LIHTC project qualifies for CRA credit under the investment test. During CRA examinations, regulators review what percentage of investments is made as equity investments in the market area. CRA investments by banks are crucial sources of private-sector financing that serve economically distressed communities by providing credit, capital and financial services for affordable housing and other community development needs. In addition, investments by banks and other corporations account for about 98 percent of the equity capital generated by the LIHTC.

Mortgages for LIHTC projects are also provided by private banks or state and local governments. According to research conducted by Jean Cummings and Denise DiPasquale, from the Joint Center for Housing Studies at Harvard, private banks provide about 40 percent of all LIHTC project mortgages. Institutions that provide mortgages may or may not be the same firms that provide the equity investment. However, in addition to the investment returns, banks that provide equity or mortgage financing also receive credit toward their CRA requirements.

### A Long-Term Investment

An adequate supply of affordable housing is essential for all to be able to participate socially and economically in society. Thus, with the growing shortage of affordable rental housing, investors have a unique opportunity. LIHTC properties have a degree of market stability. Unlike traditional real estate properties with cyclical values, rental units created through LIHTCs are less affected by real estate cycles due to the substantial shortage of low-income housing. As a long-term investment, the LIHTC is an excellent option for banks, both from a CRA and financial perspective. Since its inception, the LIHTC has been profitable for investors while creating over 100,000 units annually to meet the needs of low-income families. **MW**

# Surveying the Lending Land:

## *Analysis Examines Small Business Credit Conditions*

*by Aileen Watson*

Small business is big business. Additionally, successful small businesses create wealth-building opportunities for owners, a stronger tax base and employment opportunities in their communities. According to a U.S. Small Business Administration study, small businesses comprise a substantial percentage of several industries. For example, small business constitutes 74 percent of the NAICS* code for real estate, rental and leasing industries, 76 percent of the businesses in the arts, entertainment, and recreational services code, and 90 percent of the code for the construction industry.

Since small businesses play such a vital role in the health of communities, knowing the lending environment for this segment of professionals is crucial. Over nine years ago, researchers at the Federal Reserve Bank of Richmond began a quarterly regional survey of Fifth District bankers regarding their recent experience in small business lending. By surveying a random sample of bankers about their lending practices, Richmond Fed researchers follow trends in lending and gain insight into the condition of small businesses in the Fifth District. Bankers' responses have formed a time-series database against which current conditions can be analyzed. In addition, lenders to small businesses can compare their individual responses to the summary analysis of survey responses.

In September 1995, the first quarterly Small Business Credit Conditions (SBCC) Survey was mailed to 153 commercial banks in the Fifth Federal Reserve District, which includes Washington, DC; Maryland; Virginia; most of West Virginia; North Carolina and South Carolina. Lenders were asked to respond to the survey questions based on the previous quarter's experience with respect to small business loans and lines of credit. Small business loans were defined for purposes of the survey to be commercial and industrial (C&I) loans and credit lines of $100,000 or less. One hundred bankers responded to the first survey, which consisted of multiple choice questions and a space for comments.

Two changes have been made to the survey since 1995. Beginning with the December 1999 survey, the definition of small business loans was updated to include C&I loans of $250,000 or less. In addition, respondents were asked whether their bank's total assets amounted to more than $150 million or to $150 million or less. Initially, data for individual states and Washington, DC were analyzed separately as well as for the district as a whole. However, by the end of 1997 only the combined responses were reported, to protect the anonymity of the respondents. Mergers, acquisitions and closures have trimmed the original survey respondent list to 97. Quarterly response rates have averaged 56 percent since the survey's inception. Currently, summary survey results are available only to survey respondents. Those lenders find the reports useful for measuring themselves against District small business lending as a whole. Chad Mildren of United Bank in Parkersburg, WV, says, "It's nice to see how we compare with the survey results." R. Bruce Munro of the First National Bank in Christiansburg, VA, says he uses the survey reports along with other data to "read the tea leaves" and track shifts in the lending environment.

The survey asks bankers to compare their lending activity in the current quarter, after allowing for seasonal variation, to that of the previous quarter with respect to total dollar volume of C&I small business loans disbursed, interest rates charged, average size of loans and credit lines, cost of credit lines, spreads of loan rates over base rates, changes in loan covenants and collateral requirements, and the rate of delinquencies (90 days past due). Respondents are also asked for their assessment of the current condition of small businesses in their area compared to three months ago. In addition, lenders are asked about

## QUARTERLY SURVEY OF SMALL BUSINESS CREDIT CONDITIONS

### Federal Reserve Bank of Richmond

**Quarter Ending September 30, 2004**

*Please mark the box that indicates your response to each of the following questions as of the date above. For the purposes of this Survey, we consider Commercial and Industrial (C&I) loans of $250,000 and under to be small business loans.*

| | | Increased | About the Same | Decreased |
|---|---|---|---|---|
| 1. | How does the total dollar volume of C&I small business loans that your bank originated in the last three months compare with the volume from the previous three months? | | | |
| 2. | In the last three months, how has the interest rate that your bank charges on C&I small business loans changed? | | | |
| 3. | In the last three months, how has the average size of your C&I small business loans changed? | | | |
| 4. | Other than seasonal variation, how has your bank's rate of delinquencies (90 days past due) on C&I small business loans changed in the last 3 months? | | | |

5. In the last three months, how have your bank's terms changed on C&I loans or credit lines for small businesses, with respect to the following:

| | | | |
|---|---|---|---|
| a. Maximum size of credit lines | ( ) Increased | ( ) About the same | ( ) Decreased |
| b. Cost of credit lines | ( ) Increased | ( ) About the same | ( ) Decreased |
| c. Spreads of loan rates over base rates | ( ) Increased | ( ) About the same | ( ) Decreased |
| d. Loan covenants | ( ) Tightened | ( ) About the same | ( ) Decreased |
| e. Collateralization requirements | ( ) Tightened | ( ) About the same | ( ) Decreased |

| | | Improved | About the same | Worsened |
|---|---|---|---|---|
| 6. | What is your assessment of the condition of small businesses in your area now compared to three months ago? | | | |
| 7. | Looking ahead six months, how do you expect the condition of small businesses in your area to compare to their current condition? | | | |

| | | $150 million or Less | Over $150 million |
|---|---|---|---|
| | **Total Assets:** | | |
| 8. | What size is your organization? (Please check one) | | |
| 9. | Please comment on any special factors or problems that may be affecting small business credit conditions in your area: | | |

*Please return this form within 5 days, either in the enclosed envelope to Federal Reserve Bank of Richmond, Research, 21st Floor, P O Box 27622, Richmond, VA 23261; or by fax to (804) 697-8123 or (804) 697-8287. If you have questions or comments, please call Aileen Watson, Assistant Economist, at (800) 446-7045 ext. 7995. This survey is confidential; individual companies or contacts will not be identified. In the space below, please note any changes or corrections to your address, including the contact person to whom this survey should be sent.*

Signature

Telephone Number

sbcc\survey.doc Rev 08/04

their expectations for the next six months with respect to the condition of local small businesses.

Finally, the survey asks respondents for their comments about any special factors or problems that may be affecting local small businesses. Recent comments from lenders in the hard-hit textile and furniture areas of North Carolina cite local plant closings as an issue. "Other businesses in the region, such as restaurants, also feel the effects of the closings, as unemployed workers cut back on their spending," says Charles Snipes of the Bank of Granite in Hickory, NC.

But not all economic impacts are negative. Ron Shoemaker at Northwestern Bank in North Wilkesboro, NC, says in the last few years, technology has had a positive effect on small business lending in his area. He notes that by applying new technology to their inventory control and accounts receivable, local small businesses improved their financial management. According to Shoemaker, "Folks who keep better records don't get surprised as often."

A summary of responses to the survey questions is tabulated for each quarter. The number of responses to the survey may vary each quarter, so a diffusion index is used as a means of quarter-to-quarter comparison.

The diffusion index measures the range between the percentage of respondents reporting an increase and the percentage reporting a decrease during the quarter, with respect to each survey question. The percentage reporting decrease is subtracted from the percentage reporting increase to get the diffusion index. An index equal to zero means the percentage of respondents reporting positive and negative changes are offsetting one another, or else that all respondents are reporting no change. However, a positive index indicates growth and an index below zero reveals contraction. For example, in the fourth quarter of 2003, 49 percent of respondents said the volume of loan originations had not changed from the quarter before. But 33 percent of respondents indicated that their loan volume grew, and 18 percent of them reported that their loan volume decreased from the previous quarter. To measure the range between the percentage reporting increase and the percentage reporting decrease, 18 percent was subtracted from 33 percent. The resulting diffusion index (after rounding) was 16. And when the fourth quarter index of 16 is compared to the 2003 third quarter index of -2, it can be seen that the volume of loans grew in the fourth quarter after contracting slightly in the third quarter.

Beginning with the second quarter of 2002, the question about rate of delinquencies was revised to be more intuitive. Before that time, the question asked was whether delinquency rates had improved, remained about the same or decreased. A positive index indicated that delinquency rates were declining. Since the June 2002 revision,

### Small Business Shares by NAICS Industry

| NAICS-Based Industry Sector | Small Business Share of Output |
|---|---|
| Mining and Manufacturing | 30 |
| Utilities | 22 |
| Construction | 90 |
| Trade (Wholesale and Retail) | 64 |
| Transportation and Warehousing | 40 |
| Information | 25 |
| Finance and Insurance | 29 |
| Real Estate, Rental and Leasing | 74 |
| Professional and Technical, Administrative Support and Waste Management | 65 |
| Educational Services | 43 |
| Health and Social Services | 57 |
| Arts, Entertainment and Recreational Services | 76 |
| Accommodation and Food Services | 57 |
| Other Services | 71 |

Source: *"Small Business Share of NAICS Industries," by Joel Popkin and Company under contract to U.S. Business Administration, Office of Advocacy, 2002.*

the question asks whether the rate of delinquencies has increased, remained about the same or decreased. A positive index indicates that the rate of delinquencies has grown.

The volume of loan originations would be expected to grow as delinquency rates fall and lenders' assessments of their clients' overall business conditions improve, perhaps with a lag. Chart 1 *(page 21)* shows that in the first quarter of 2003, the index for the delinquency rate fell below zero and remained negative for the rest of the observation period. In the second quarter of 2003, lenders had a neutral view of small business conditions — the index was zero — after four quarters of a pessimistic assessment. By the third quarter of 2003, the index for current business conditions turned positive, indicating bankers' views of their clients' business conditions had become more optimistic. In the fourth quarter of 2003, the index for the volume of loan originations had moved into positive territory as loan volume picked up.

Winfield Trice of Mercantile Peninsula Bank in Salisbury, MD, says because local tel-com related businesses have "climbed out of the cellar," and his area is experiencing a local real estate boom, the demand for small business loans is on the rise. He follows the SBCC reports to keep up-to-date on the broad region.

The Richmond Fed's survey originated from its designers' desire to have District-specific data. The questions on the SBCC survey came from another, more extensive, Federal Reserve survey. The Federal Reserve Board of Governors surveys domestic banks and U.S. branches and agencies of foreign banks about lending practices in a national survey called the Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOS). About 60 domestic banks and 20 branches and agencies of foreign banks are surveyed four or five times per year regarding their lending practices. On the SLOS surveys, small businesses are defined as those having annual sales of less than $50 million. Questions on the survey can vary, and the survey is scheduled such that recent results will be available for the Federal Reserve's Federal Open Market Committee meetings in January, May, August and November. The SLOS results are available on the Board of Governors website.

*(www.federalreserve.gov/boarddocs/surveys)*

How do the SBCC regional survey results compare with the larger SLOS survey? A loose comparison can be made between the responses to two of the survey questions, but differences in the administration of the surveys and the method of reporting prevent a more precise comparison of responses between the two surveys.

Both surveys ask about changes in the demand for C&I loans over the previous three months, determined by the volume of loans actually disbursed. Respondents to the SLOS are asked to choose an answer from five choices ranging from substantially stronger" to "substantially weaker." Similarly, lenders are asked to rate the change in their credit standards for approving applications over the preceding three months from a range of five answers that vary progressively from "tightened considerably" to "eased considerably." The SLOS results for loan volume and credit standards questions are given as the percent of respondents who chose each answer.

To compare results of the two surveys, some standardization is necessary. To do that, the SLOS results were put in the same format as the SBCC results. The percent of banks that reported "moderately stronger" and "substantially stronger" loan demand with respect to C&I loans from small firms was combined, as were those that reported "moderately weaker" and "substantially weaker." Then the combined responses were converted to diffusion indexes as in the SBCC survey. The same was done with the credit standard responses to get two sets of indexes that could be compared with the SBCC surveys. For the SBCC survey, the indexes for loan covenants and collateralization requirements were used as the comparable measure to the SLOS credit standards.

In Chart 2, the indexes for credit standards (loan covenants and collateralization requirements) are compared to loan originations for the SBCC survey. The indexes for credit standards from early 2000 to late 2003 were positive except for a drop in the third quarter of 2001 in the SBCC survey, meaning to varying degrees, lenders reported tightening throughout the period. During that time, the index for the volume of loans remained negative, except during the second and fourth quarters of 2001, when it edged up to readings of six and three, respectively, and during the second quarter of 2003 when loan growth was flat, at an index of zero. So as lenders tightened credit standards, loan volume was generally contracting.

In Chart 3, the SLOS index for credit standards is compared with the index for loan demand. The SLOS credit standards index was positive from November 1999 until October 2003, when it slipped to -2. The SLOS loan volume index turned negative in November 1999, and with the exception of May 2000, when the index registered 5, the index did not reach a positive reading until January 2004. In both surveys, the indexes for credit standards from early 2000 to late 2003 were mostly positive while the indexes for loan demand were falling.

While these comparisons are not precise, they show that the regional survey results generally mirror the bigger picture for those measures. Small businesses are an important part of the economy and the quarterly Survey of Small Business Credit Conditions provides useful data on trends in Fifth District regional information on small business lending. **MW**

**North American Industry Classification System (U.S. Office of Management and Budget)*

**CHART 1**

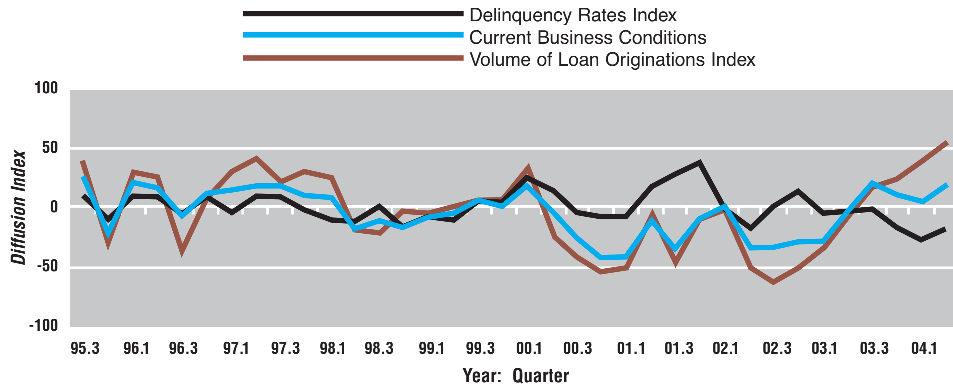



**CHART 2**

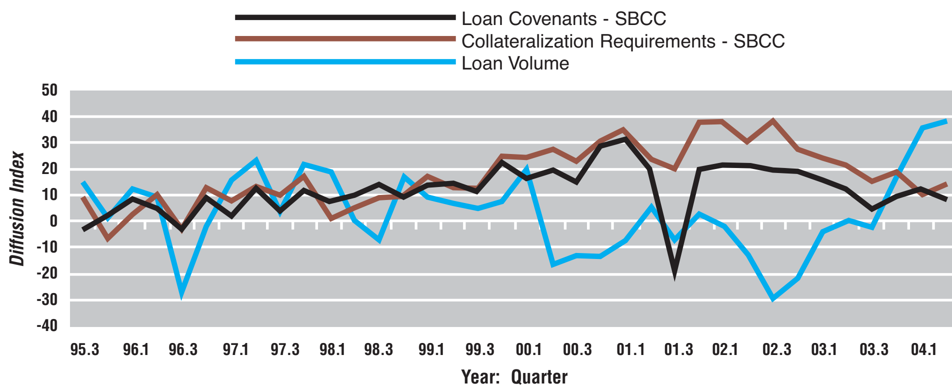
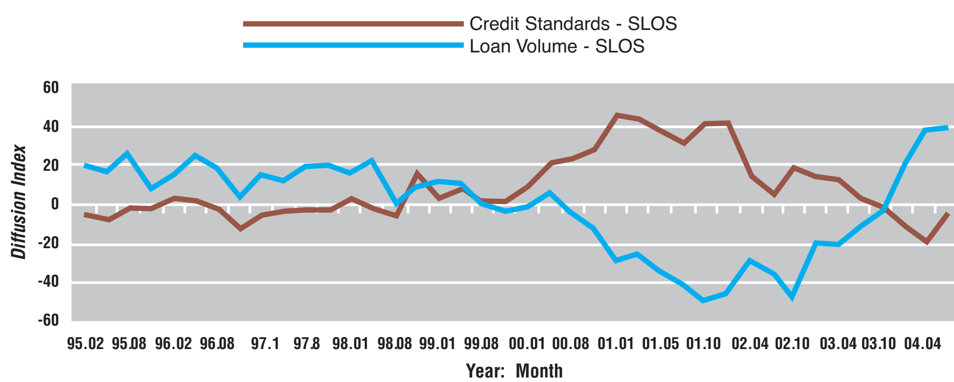



**CHART 3**




*Jackie Edwards Walton (left) and Floyd Davis have strategically realigned their organizations to enhance service delivery to their customers.*

# Joining Forces:

## *Two Nonprofits Gain Efficiency through Restructuring*

*by Jennie Blizzard*

Jackie Edwards Walton and Floyd Davis, executive directors of two reputable and successful nonprofit organizations in Charlotte, North Carolina, didn't expect a lunch appointment to turn into a discussion about uniting their entities. "We were housed in the same building," said Walton who was executive director of Ujamma Inc. at the time, "but when Floyd came here two-and-a-half years ago, we decided to go to lunch and from there, we started talking about merging our organizations."

Consolidation, which has traditionally been considered a standard in the private sector, has made significant strides in recent years as an emerging trend in the nonprofit world. Especially since usual income streams such as public funding and philanthropic contributions continue to dwindle. Nonprofits across the nation are exploring new ways to operate more efficiently and effectively and

***"One of our major reasons for deciding to merge was to provide a complete continuum of services to working people who are homeless and to those who are looking for homeownership."***

*Floyd Davis*

develop a more entrepreneurial spirit. "One of our major reasons for deciding to merge was to provide a complete continuum of services to working people who are homeless and to those who are looking for homeownership," said Davis of Community Link.
*(See page 29; "To Merge or Not to Merge? A Valid Question.)*

### Partners for Progress

Davis, who has over 30 years of experience in the non-profit field spanning across the country, says he's a strong believer that more organizations whose missions are complimentary should consider coming together. This strategy has proven to be a worthwhile endeavor since Community Link works primarily with those who are homeless or are on the verge of becoming homeless. Ujamma, which became a wholly-owned subsidiary of Community Link in July 2004, provides homeownership counseling and education for homeowners.

According to Davis, the merger process proved to be less painful than expected. "I have said for a long time that one of the things that needs to take place in the nonprofit sector is that more organizations should come together and form strategic alliances. This will enable nonprofit organizations to have a greater impact and operate more efficiently," he said. Davis says the experience was positive because from the beginning both he and Walton asked themselves what would make the

*Ujamma Inc.'s homeownership counseling program is a popular resource for residents seeking homes in the Charlotte area.*


***The organization offers three types of services: short-term casework; long-term casework and a supportive housing program.***

merger possible and impossible. "We realized the benefits from the beginning," he said. "We asked what could be the deal maker and what could be the deal breaker. The response was if the merger negatively impacted the services we provided we would not move forward."

### *Diminishing the Poverty Cycle*

Community Link helps break the cycle of poverty by enabling working poor individuals and families obtain and sustain safe, decent and affordable housing. Community Link takes pride in its mission to utilize community resources efficiently to provide effective, individualized, long-term services to break the cycle of poverty among individuals and families. The organization offers three types of services: short-term casework, long-term casework and a supportive housing program. The short-term casework program assists new residents in Mecklenburg and Cabarrus counties and families and people who have been helped by the Crisis Assistance Ministry and Cooperative Christian Ministries three or more times during the year. Community Link gives the customers detailed assessments of employment, housing, financial status and other factors that contribute to positive life changes. Davis quickly points out that Community Link refers to the people they work with as "customers," not "clients." "We don't say

*Ujamma offers its homeownership courses in English and Spanish.*

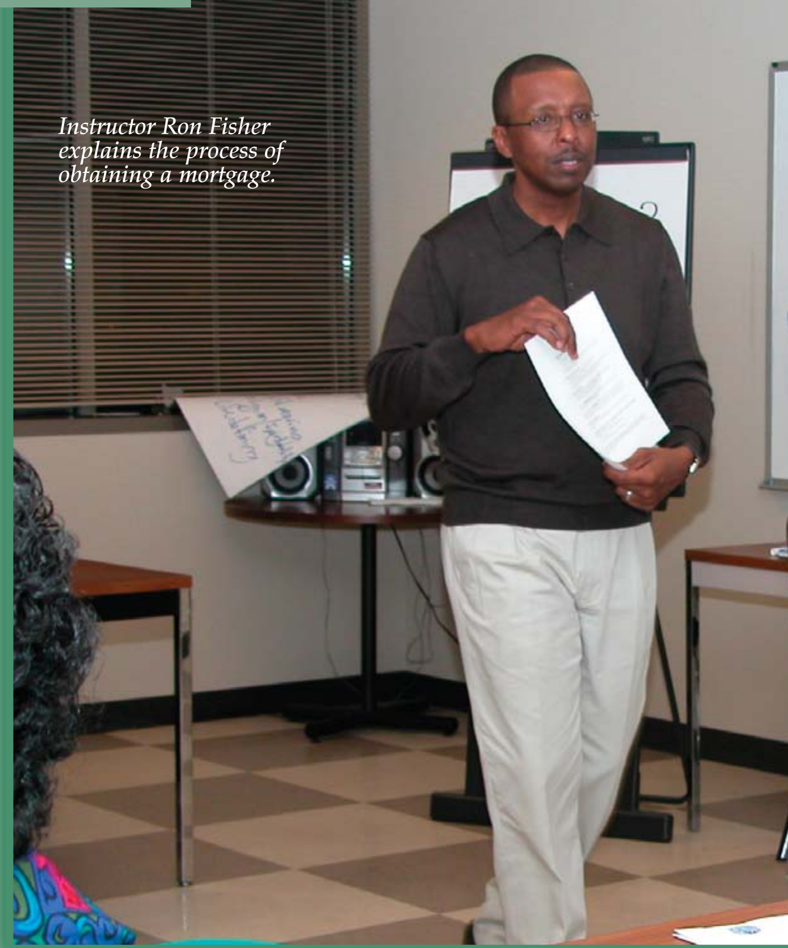
**"We can't maintain our properties unless we help our families gain self-sufficiency… Our families are our greatest assets."**

*Jeri Arledge*

clients because no one is mandated to use our services. They come to us because they want help," he said.

The long-term casework program assists individuals and families who are homeless or are at risk of becoming so. Community Link delivers personalized and customized plans that link customers to counseling, job training, educational programs, substance abuse treatment and other resources needed to help people become self-sufficient. The Supportive Housing program helps fragile families obtain safe, decent and affordable housing. The program includes the services of housing coordination and housing resource development.

Community Link is well on its way to reaching its goal of becoming the premier provider of programs that enable individuals and families to break the cycle of poverty by 2010. Over 70 percent of the people that Community Link serves have sustained housing up to a year after their cases close. Community Link recently partnered with the Charlotte Housing Authority (CHA) to provide social work for clients affected by the new Hope VI project at Piedmont Courts. The primary reason Community Link was chosen was because of its ability to provide quality services. "Community Link



*Instructor Ron Fisher explains the process of obtaining a mortgage.*

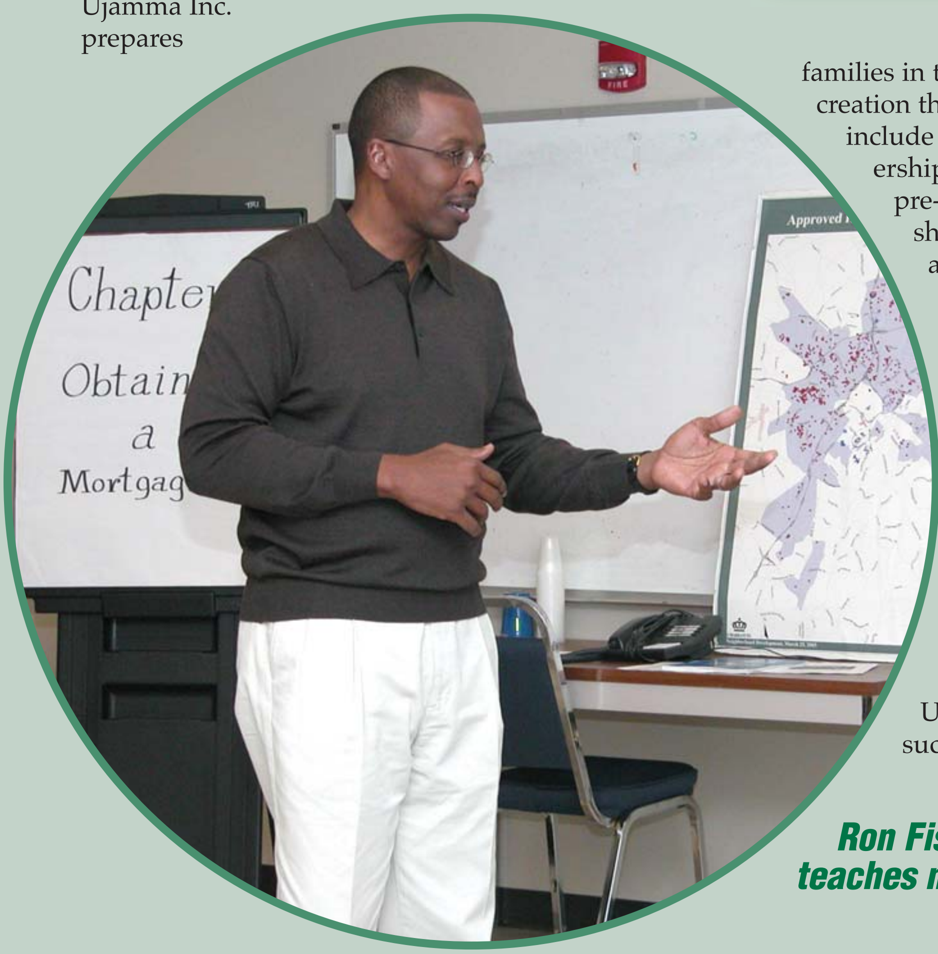
**Ujamma Inc. prepares families in the Metrolina area to move toward wealth creation through homeownership. Their services include a comprehensive seven-step homeownership program.**

was the only agency in town that had the capacity to take on working with such a large number of families," said Jeri Arledge, director of client services for the housing authority.

As a testament to the efficiency trend, CHA is also looking for more ways to be efficient in operations. According to Arledge, CHA wants to focus more on its role as developers and property managers and contract social services work to qualified agencies. "We can't maintain our properties unless we help our families gain self-sufficiency," she says. "Our families are our greatest assets." Recently CHA contracted with Community Link to serve families in two other Hope VI communities, Arbor Glen and Park at Oaklawn.

### Obtaining the American Dream

The word "ujamma," derived from the fourth day in the African-American holiday of Kwanzaa, means cooperative economics. Ujamma Inc. prepares families in the Metrolina area to move toward wealth creation through homeownership. Their services include a comprehensive seven-step homeownership program: pre-class credit consultation; pre-homeownership education; homeownership counseling; credit counseling; loan pre-approval; home selection, contract and closing; and post-homeownership follow-up. Walton, who now serves as the vice president of community development and government affairs for Community Link, speaks passionately to class attendees about the wealth-building opportunities homeownership creates. "When you see dirt move, pay attention," she says referencing a number of areas in the Charlotte area that were once distressed but have appreciated exponentially in the past few years.



Ujamma has helped to produce over 900 successful homeowners. Last year alone, 103

**Ron Fisher of HBC Consulting LLC teaches many of the homeownership classes.**


attendees closed on homes. Ron Fisher of HBC Consulting LLC teaches many of the homeownership classes. Fisher spent 25 years working at Wachovia where he became a senior vice president. Additionally, he played a significant role in advocating community development, which led to Community Reinvestment Act legislation. Ujamma does not advertise its programs and all participants find out about the homeownership classes through referrals. The classes are also taught in Spanish.

### *Changing with the Times*

Community Link has continued to magnify its expansion that began in Charlotte in 1929 as Travelers Aid Society. The all-volunteer agency consisted of women who operated booths at train and bus stations to help transient, lost, abandoned or ill strangers. The agency has remained a chapter of Travelers Aid International. Post-World War II prosperity brought families to Charlotte searching for permanent jobs and housing, and Travelers Aid began to shift from volunteer travel assistance to the professional social work services that are the hallmark of its current programs. Assistance included providing tools, work clothes, gas, food, tires and other emergency help. By the 1980s, the requests for relocation assistance exceeded the requests for travel assistance.

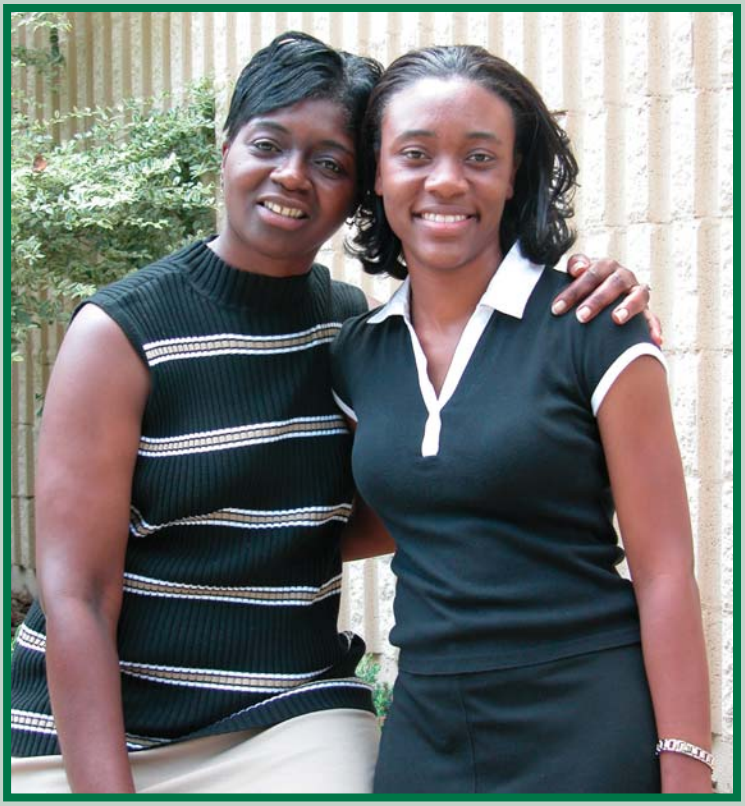
During the 1980s, requests for housing and employment assistance from local families rapidly increased. Programs designed

## *Steps to a Successful Nonprofit Merger*

Nonprofits merge for a variety for reasons but certain aspects are key for the consolidation to be successful. The key components include:

- Bringing fully engaged boards together to explore the risks and collaborate in moving forward;
- Having board members who are willing to take leadership for merger negotiations;
- Being honest and forthcoming about what each nonprofit expects from a merger;
- Sharing detailed and proprietary information when the two groups get to the phase of the process which requires disclosing past and pending incidents;
- Seeking independent help to facilitate merger planning and negotiation;
- Designing a process that entertains the possibility that the organizations will not merge;
- Making sure that groups are represented equitably in merger negotiations;
- Spending time determining how to communicate the process to key stakeholders, including staff, volunteers and funders;
- Consulting legal counsel about contractual obligations in employment if the nonprofit merges; and
- Avoiding the assumption that current insurance policies and coverage purchased by the new entity will be adequate without special endorsements to close any gaps that could be created by the merger.

Source: *"Manage the Upside and Downside Risks of Nonprofit Mergers" by Melanie Herman.*



*Madelyn Miller (left) attributes self-motivation and the assistance from Kimberly Caldwell, a case worker at Community Link as the reason she progressed from homelessness to self-sufficiency.*

to teach families the skills needed to find and keep affordable housing were created, and Travelers Aid began collaborating with other agencies to link families to job training, counseling and other necessary programs for self-sufficiency. In 1989, Travelers Aid opened a second office in Cabarrus County. By 1995, the agency wanted a name that would better reflect its expanded role. Travelers Aid became Community Link Programs of Travelers Aid Society of Central Carolinas, Inc.

### *From Homelessness to Self-Sufficiency*

Madelyn Miller is one of Community Link's many success stories. Before Christmas of 2002, Miller and her teenage son were homeless. After living with a friend and spending four weeks in a Salvation Army Emergency Shelter, they later moved into the Charlotte Emergency Housing Shelter (CEH). CEH referred Miller to Community Link to help her find permanent housing. There Miller met case worker Kimberly Caldwell who helped Miller with budgeting and money management. After developing a plan to help her curtail her debts Miller and her son moved into an apartment in May 2004. "I think I was meant to go through this," said Miller. "To learn and grow as a result." Miller is now in the process of enrolling in Ujamma and looks forward to owning a home.

Her experience also provides satisfaction for Caldwell. Each social worker at the agency rotates intake so they see different types of issues. The case workers are given the opportunity to see and work with a diverse set of situations and circumstances. "It's very rewarding to see people grow from needing intake and resources to progressing into self-sufficiency," said Caldwell. She also added that there's a common misconception that the typical poor person is a panhandler standing on the street, when in fact it is the working poor who cannot afford basic needs such as housing, food and transportation.

### *Moving Forward*

Community Link has always maintained a strong network of partners including eight local agencies such as Mecklenberg County's Homeless Services Network, the United Way, Mecklenberg County's Department of Social Services and is branching out to other local departments. In addition, Community Link plans to expand Ujamma's service area beyond the city of Charlotte since housing issues transcend geographical boundaries. Risk is almost always associated with change. But the Community Link/Ujamma merger proves that if the appropriate conditions exist, the rewards of considering or adopting a new way to do nonprofit business definitely outweigh uncertainty. Community Link illustrates that nonprofit management and service delivery does not have to be business as usual. **MW**

*For more information about Community Link and its programs visit* www.communitylink-nc.org *or call* Rasheda Strong at 704-943-9493.

# To Merge or Not to Merge? A Valid Question

*by Jennie Blizzard*

The lack of public funding and philanthropic dollars has caused many organizations to explore streamlining services and operations. "I have seen more strategic restructuring over the past couple of years," said Charles Page, former senior vice president for community building at the United Way of Central Carolinas who facilitated Community Link and Ujamma's merger process. "I believe I've seen more of this kind of thinking from agencies over the last couple of years than any time in the past 25 years at United Way."

Page, who retired from the United Way in December and has facilitated other organizations through the consolidation process, deems the Community Link/Ujamma merger successful because of several factors including due diligence and socialization. Both organizations seriously looked at who was serving on both boards; how to incorporate the two service components together; what the budget would look like; and what would be the implications for funding sources that would be lost or gained. "We went through a process of disciplined review of all those aspects. We had treasurers from both organizations," said Page. We had the key people who understood the different aspects with full disclosure from both parties so there were no surprises. " He also added that when two groups were moving toward a relationship, they had to develop a sense of trust.

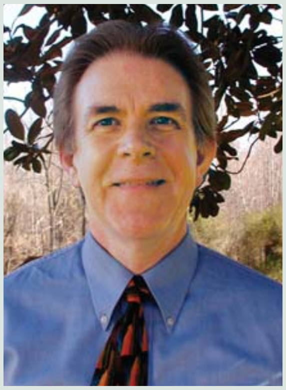
According the La Piana and Associates, a management consulting firm specializing in issues faced by nonprofit organizations, strategic restructuring is a continuum of partnerships — including but not limited to mergers, joint ventures, administrative consolidations and joint programming — through which nonprofits attempt to anticipate or respond to environmental threats and opportunities. Strategic restructuring is available to nonprofit organizations interested in addressing organizational problems; responding to environmental changes; and strengthening services by leveraging the talents of their own and other organizations by working together.

*Types of specific strategic restructuring are:*

- Administrative consolidation — includes sharing, exchanging or contracting out administrative functions to increase the administrative efficiency of one or more organizations.
- Joint programming — includes the joint launching and managing of one or more programs to further the programmatic mission of participating organizations.
- Management service organization (MSO) — includes the creation of a new organization to further a specific administrative or programmatic end of two or more organizations.
- Parent subsidiary — integrates some administrative functions and programmatic services.
- Merger — includes the integration of all programmatic and administrative functions to increase the administrative efficiency and program quality of one or more organizations.

According to David La Piana, a merger is most successful when both organizations know what it wants to accomplish; is clear on its mission; understands and agrees upon its strategic challenges; can speak with one voice after a full discussion; has a strong, positive board/management relationship; is not in crisis; has a history of successful risk-taking; and is growth oriented.

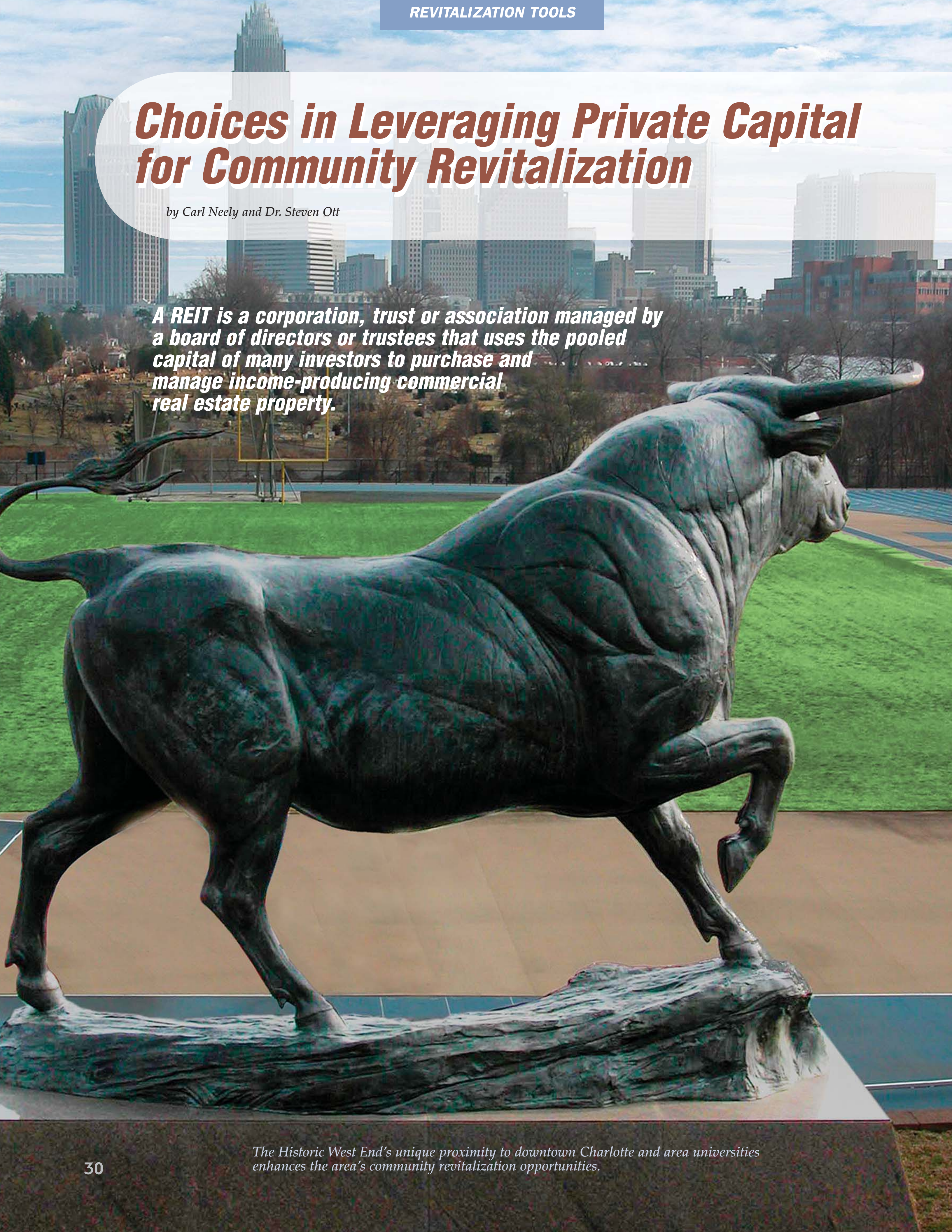
The Community Link/Ujamma merger has saved $60,000 per year from the two agencies' combined budgets. Page also adds that there are other options to save dollars without having to fully merge. "In some cases you can share office space or anything else that will help the agency serve clients and keep costs at the lowest level."



Charles Page

# Choices in Leveraging Private Capital for Community Revitalization

*by Carl Neely and Dr. Steven Ott*



***A REIT is a corporation, trust or association managed by a board of directors or trustees that uses the pooled capital of many investors to purchase and manage income-producing commercial real estate property.***

*The Historic West End's unique proximity to downtown Charlotte and area universities enhances the area's community revitalization opportunities.*


According to the Fannie Mae Foundation, some financial experts have projected that over the next decade the market for real estate in distressed communities could reach $100 billion. Many entities have utilized traditional community development financing resources such as tax credits and loans to tap into the ever-growing market. But as deals become more complex, so have financing strategies.

Real estate investment trusts (REITs) and limited liability corporations (LLCs) are two types of entities that can be used for community development organization and financing. As nonprofits explore ways to achieve larger scale revitalization, properly structured REITs and LLCs can achieve desired results.

### REITs 101

Congress created REITs in 1960 to enable small investors to make investments in large-scale, income-producing real estate. A REIT is a corporation, trust or association managed by a board of directors or trustees that uses the pooled capital of many investors to purchase and manage income-producing commercial real estate property such as apartments, hotels, offices, retail properties and industrial space. Most REITs are public companies that are traded on major exchanges or the over-the-counter market. A publicly-traded REIT provides its investors with excellent liquidity, i.e., the ability of an investor to buy and sell shares quickly.[1] However, there are, many privately-held REITs. Private REITs can go public in the future and are often set up to gain access to public funds and make the shares of the REIT liquid.[2]

One major advantage of a REIT is that, in addition to the limited liability for its shareholders, REITs are granted special tax considerations. Essentially REITs are not taxed at the corporate level because they are allowed to deduct any dividends paid to shareholders from their taxable corporate income, which usually removes all corporate-level tax burdens. There are various types of REITs such as an UPREIT and a downREIT. These are the same as a REIT with the exception that a partnership is involved in the structures which allows investors in the REIT to contribute property, (e.g. real estate) tax deferred, to the REIT in exchange for partnership units. These units can eventually be exchanged into REIT shares where the investor controls the timing of the taxable event. UPREITs and downREITs can be used for community development. Currently, only one community development REIT exists in the United States.

*(See Preserving America's Communities, right.)*

***REITs are not taxed at the corporate level because they are allowed to deduct any dividends paid to shareholders from their taxable corporate income, which usually removes all corporate-level tax burdens.***

## Preserving America's Communities

Authorized in 1960, REITs own and usually operate income-producing real estate, such as apartments, shopping centers, hotels, offices and warehouses. REIT entities receive favorable tax considerations. The Community Development Trust (CDT) is the first and only REIT that was created solely to acquire community development assets. Their charter requires that they make investments that meet the requirements of the Community Reinvestment Act, which encourages banks to meet the credit needs of their community.

CDT worked with The Reinvestment Fund (TRF) to finance several projects with Neighborhood Restorations Inc. (NRI) throughout West Philadelphia. Nearly 700 units were rehabilitated or developed by NRI using tax credit equity and debt capital from TRF and CDT. CDT played a major role in the development as they provided $2.6 million in a fixed-rate permanent mortgage to NRI to finance this project.

[1] *Providing liquidity for an illiquid asset (real estate) was one of the original ideas that prompted Congress to enact the REIT entity structure in 1960.*

[2] *To the author's knowledge, there is only one REIT formed for the express purpose of community redevelopment. It is a private REIT named CDT. Information on this REIT can be found at http://www.commdevtrust.com/.*

**In order to qualify for the corporate tax exemption, the REIT must distribute at least 90 percent of the sum of its taxable income to shareholders.**

*The Northwest Corridor CDC has a multi-faceted approach to housing through senior developments such as LaSalle at Lincoln Heights.*

### Forming a REIT

To create a REIT, advice is often sought from an attorney, accountant and other advisors that specifically work with these special entities. This can turn into a time consuming and costly process because of the multitude of rules governing REITs. Prior to forming a REIT, the entity must prepare to meet specific criteria relative to its organization, operations, income distribution and tax compliance. Organizationally, the REIT must be formed in one of the 50 states as a corporation and must be managed by directors or trustees. A REIT must have in excess of 100 shareholders of which five or fewer cannot own more than 50 percent of the value of the REIT's stock. It is common for a REIT to not allow any one shareholder to own more than 9.9 percent of the value of the stock.

Operationally, the REIT must satisfy two annual income tests and a number of quarterly asset tests that are designed to ensure that the majority of its income and assets are derived from real estate sources. Each year 95 percent of the gross income is required to come from income relative to real estate. In order to qualify for the corporate tax exemption, the REIT must distribute at least 90 percent of the sum of its taxable income to shareholders.

### A REIT Alternative: the Limited Liability Corporation (LLC)

An LLC is an excellent alternative to a REIT. The LLC allows for great flexibility in management structure, which is predetermined prior to establishing the LLC. There are also many lower start-up and legal costs. Members of the LLC can be local landowners, investors, local residents and any other stakeholders.[3] If the LLC is structured properly, each member simply reports his or her share of the profit and loss on his or her individual state and federal income tax returns so, like the REIT, entity level taxation can be avoided.

LLC owners are called "members." Without an agreement to the contrary, all of the members are managers; however, a written operating agreement may designate one or more of the members as decision-making managers. An LLC has the tax advantages and the flexibility of a partnership and the limited liability advantages of a corporation.

*(For an example of a LLC for community development, see Market Creek Plaza, on page 33.)*

[3] *LLCs can have corporations as shareholders (members) while REITs cannot.*

### Forming an LLC

Creating an LLC is relatively easy and inexpensive. Depending on the state where the LLC is formed, there are typically four steps in establishing the entity.

1. Choose a name — Each state has specific rules regarding the name of the LLC.
2. Process paperwork — Formal paperwork, often called the articles of organization and bylaws must be filed. This includes a filing fee that ranges from $40 to $900 depending on the state where the LLC is formed.
3. Create an operating agreement — An operating agreement must be created. This legal document details the rights and responsibilities of the members, the members' percentage interests in the business, voting power, how profits and losses will be allocated, how the LLC will be managed and rules for holding meetings and making decisions.
4. Buy licenses and permits — Before the business begins operations one must obtain licenses and permits that all new businesses must have to operate.

### The Northwest Corridor: A Potential REIT or LLC Candidate?

The Federal Reserve Bank of Richmond's Community Affairs Office (CAO) brought together area stakeholders in Charlotte, North Carolina, to disseminate more information about REITs and to promote partnerships for community revitalization of the Historic West End located in the Northwest Corridor of the city. Dr. Steven Ott, the Crosland Distinguished Professor of Real Estate and Development at the University of North Carolina at Charlotte, presented the basics of REITs and suggested and explained an alternative LLC model for the Northwest Corridor to consider using for collaborative revitalization.

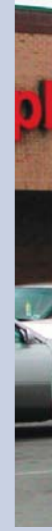
*Dr. Steven Ott, an expert in real estate development, believes properly structured REITs and LLCs can help spur development in areas such as the West End.*

**Creating an LLC is relatively easy and inexpensive. Depending on the state where the LLC is formed, there are typically four steps in establishing the entity.**

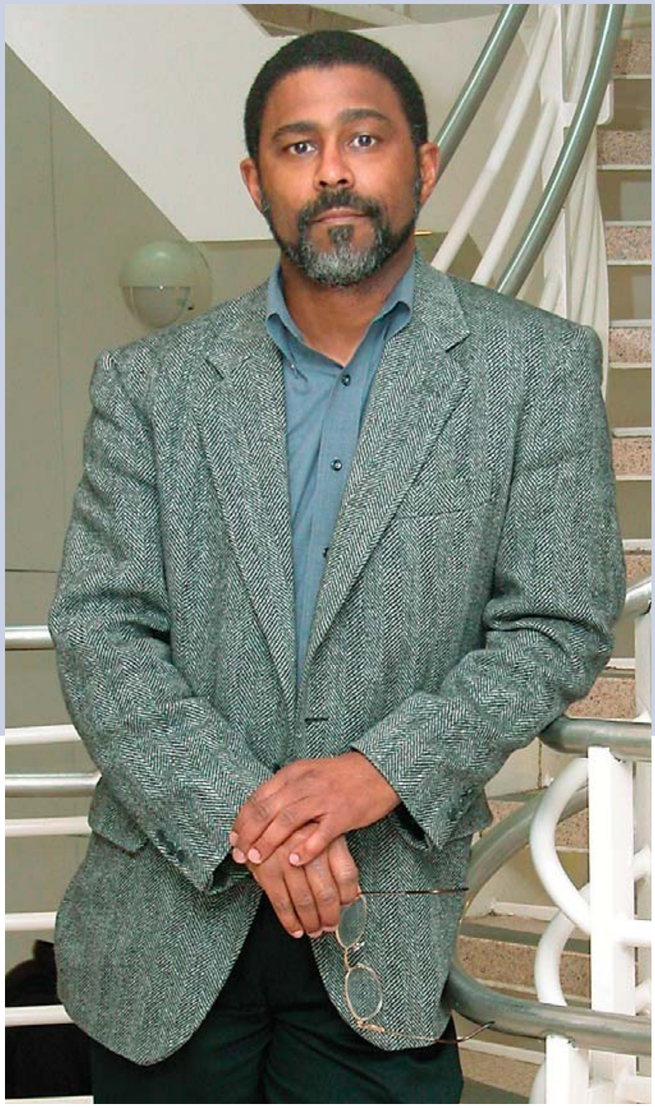
## Market Creek Plaza

In 1998, over a 120 residents came together hoping they could transform their communities into a cultural vicinity with commercial amenities that would be economically beneficial to residents. Several groups and subcommittees were formed and over 800 surveys were conducted in four languages along with hundreds of community meetings.

Market Creek Plaza, a commercial and cultural center built on a 20-acre abandoned factory lot in San Diego, California, is a result of the community's hopes. In addition to this development's grand appearance, the property is owned and operated by residents. Market Creek Partners, LLC, owners and operators of the plaza, have allowed residents to share the venture's monetary risk, develop plans and reap profits. Market Creek Plaza is located within a state enterprise zone or federal enterprise community which is characterized as an economically depressed area that has been targeted for revitalization by the city and state through tax and other incentives. Located five minutes from downtown, the plaza is easily accessible to major highways and is located near public transportation. Total costs for this project were $23.5 million. However, after the area had been developed the land doubled in appraised value within the first two years. Not only did the value of the land increase, but more than 1,700 new jobs were created in the neighborhood.



The Northwest Corridor located near West Trade Street consists of 12 neighborhoods, approximately 4,500 households with 15,000 residents. Most of the residents rent units. Prior to recent developments, there had not been a new housing development within the corridor for more than 20 years. The surrounding neighborhoods lacked any significant investments and were characterized by dilapidated housing, dark streets with insufficient lighting, illegal drug activity and high crime. Prior to 1991, there was no viable shopping center, drug store or library. A 7,000-square-foot grocery store, along with a few other independent stores, sat near deteriorating housing stock. However, the vision of the community activists and residents called for a West Trade revival.



*Ike Heard, the first executive director of Northwest corridor CDC, spearheaded a variety of community development endeavors in the West End such as the University Park Shopping Center.*

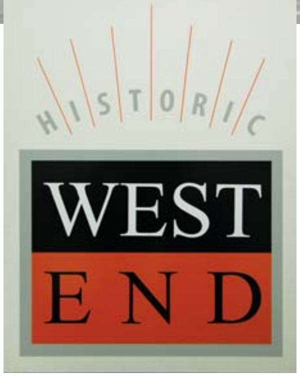
Johnson C. Smith University, a Historically Black College and University (HBCU), along with the city, residents and stakeholders realized that there needed to be a concerted effort to revitalize the corridor, also known as the Historic West End. Through grassroots efforts the Northwest Corridor Community Development Corporation (Northwest Corridor CDC) formed in 1991 to revitalize the community. Ike Heard served as the first executive director of the Northwest Corridor CDC and was instrumental in developing several community housing projects that have served as a catalyst for other projects.

Heard and a three-person staff with the board of directors was responsible for developing over 200 units of affordable housing stock (new, rehabilitated, rental and owner occupied); co-developing (with Volunteers of America) a 60-unit Low-Income Housing Tax Credit project for mixed-income elderly; implementing leadership training seminars for volunteer neighborhood activists; and developing a 30,000-square-foot community-oriented retail services facility and office building. In support of these projects, the Northwest Corridor CDC acquired more than $2 million in grants for core operations of the organization. Many of the grants came from the U.S. Department of Housing and Urban Development's HBCU program, which was instituted in 1993. Johnson C. Smith was one of the first HBCUs to receive this grant. Also the Northwest Corridor CDC received more than $24 million in loans, investments and grants to finance various projects and developed University Park Shopping Center.

Heard said, "The opening of the University Park Shopping Center gave the Northwest Corridor CDC a marketing tool to assist them in making the case for a new housing development." The shopping center acted

***"The opening of the University Park Shopping Center gave the Northwest Corridor CDC a marketing tool to assist them in making the case for a new housing development."***

*Ike Heard*



*Terrell Blackmon, the current executive director of the Northwest Corridor CDC, aims to build on the organization's previous success.*

***"Now is the time to take advantage of the momentum of activity on all sides of the corridor."***

*Terrell Blackmon*

as a catalyst for other new developments such as the 60-unit LaSalle at Lincoln Heights, a senior housing development, and a 12-unit subdivision called Taylor Place. Since the center opened, Mecklenburg County constructed a new library three blocks away. The United House of Prayer erected a new worship and multi-purpose facility, their second largest in the country. The city also made plans to create a light rail transportation system which would include service to the Northwest Corridor.

Most of these developments have evolved in the last several years. However, the Northwest Corridor remains an area that needs much attention to reverse decades of stagnation. "Now is the time to take advantage of the momentum of activity on all sides of the corridor," says Terrell Blackmon, the current executive director of the Northwest Corridor CDC. Other recent developments include a new NBA basketball arena, an NFL football stadium and the addition of Johnson and Wales University. The university, which anchors the half-mile corridor to the east, forecasts a strong need for off-campus housing beginning this year. Johnson C. Smith, which provides office space for the Northwest Corridor CDC, will also need additional housing.

*(continued on page 37)*



## Possible CRA Consideration

Do banks receive Community Reinvestment Act (CRA) Credit for investing in Real Estate Investment Trusts and Limited Liability Corporations formed for the purposes of community development?

Strong consideration is given to the investment test of CRA for such an investment if the banks have a primary purpose of community development in one of four areas:

- Affordable housing for low- or moderate-income individuals (LMI);
- Community services targeted to LMI individuals;
- Activities that promote economic development by financing small businesses or farms; and
- Activities that revitalize or stabilize LMI geographies.

Since a financial institution's primary regulatory agency makes the final determination as to whether REITs or LLC investments are CRA-eligible for that institution, investors must do their own due diligence on acceptable returns, risk and compliance.

### *Exploring Options*

Blackmon says that the CDC has always been consistent in marketing the area, even during tough times when surrounding developments were not as prevalent, through assessments, homebuying fairs and market studies. In 2002 a panel of 12 — including developers and experts in finance, commercial banking, planning and real estate — was assembled by the Charlotte Chapter of the Urban Land Institute (ULI) to provide technical assistance to the corridor for a development study. District Council Technical Assistance Programs (TAPs) are one of the services offered as part of ULI's national Advisory Services Program. Since 1947, the Advisory Services Program has assisted communities by bringing real estate, and planning and development experts together to provide unbiased, pragmatic advice for addressing complex land use and development issues. The 2002-2003 TAP for the Northwest Corridor, which refers to the area as the Historic West End, was organized and run entirely by the Charlotte ULI District Council. Panelists for this project were invited to participate based on their unique expertise, market knowledge and interest in urban revitalization. The panel spent several months creating a road map for future development along the corridor.

The plan calls for a mix of market-rate apartments, single-family dwellings and townhomes, and retail such as dry cleaners, hair salons and drug stores. The panelists say that the project's success depends on a property owner's willingness to get involved — by leasing, selling or agreeing to develop their property inside the corridor. Another goal is to implement the plan without making the neighborhoods inside the corridor unaffordable for residents who live there. The goal is to provide housing alternatives and services to improve the quality of life for existing residents, students and workers while preserving the strong cultural identity of the community.

Jennifer Stanton, chair of the TAP study, indicates that pricing is a hurdle to economic development because of the gap between the realities of development costs, projected project revenues and acquisition prices. Creative financing such as forming a private REIT or some type of collaborative entity that allows residents to share in the revenue stream from the development of the corridor is needed.

### *Choosing an Option*

There are many driving factors that ultimately determine the best entity to form for undertaking community redevelopment. Special consideration should be made toward costs, flexibility, funding, management structure, tax rules and liability. Although the REIT has been considered a viable option, the LLC is usually considered the best choice for making redevelopment investments and sharing future profits with stakeholders.

Neighborhoods like the Northwest Corridor/Historic West End can be negatively affected by declining real estate values, abandoned buildings and jobs moving elsewhere. For growing cities like Charlotte these underdeveloped neighborhoods often become excellent opportunities for new development and investment. Forming an entity, such as a REIT or LLC where communities can pool resources, insure limited liability, share ownership and economic benefits is a model for the corridor to consider in its effort to improve the community. **MW**

*Thanks to Dr. Steven Ott for writing the technical information on REITs and LLCs.*

*Northwest Corridor CDC has developed an array of housing including senior housing, townhomes and single-family properties.*

***Although the REIT has been considered a viable option, the LLC is usually considered the best choice for making redevelopment investments and sharing future profits with stakeholders.***

# RESEARCHER'S CORNER

## Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures

**The findings of the study by Dan Immergluck of Grand Valley State University and Geoff Smith of the Woodstock Institute indicate that subprime lending has a substantial impact on neighborhood foreclosure levels. For every 100 additional subprime loans on owner-occupied properties made in a typical neighborhood from 1996 to 2001, there were an additional nine foreclosure starts in the community in 2002 alone. Other additional findings include:**

- **Non-owner occupied subprime loans, although far fewer in number than those to owner-occupied properties, have an even higher propensity to lead to increased foreclosures. A tract with just 10 more such loans over the 1996 to 2001 period, other things being equal, would be expected to have more than 2.5 additional foreclosures in 2002.**

- **Prime lending has a minimal impact on the neighborhood foreclosure level and, in the case of refinances, prime lending actually reduces the level of expected foreclosures.**

**The contribution of subprime home purchase loans to neighborhood foreclosures is 28 times that of prime home purchase loans.**

*The study can be accessed at:*
http://woodstockinst.org/document/riskybusiness.pdf.

## Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainsteam

**Low-income households in the United States often lack access to bank accounts and face high costs for conducting basic financial transactions through check cashers and other alternative financial service providers. These families find it more difficult to save and plan for their financial futures. Michael S. Barr, assistant professor at the University of Michigan Law School, explores how high-cost financial services and inadequate access to bank accounts may undermine widely-shared societal goals of reducing poverty, moving families from welfare to work and rewarding work through incentives such as the Earned Income Tax Credit. Written for The Brookings Institution, this paper calls for the transformation of financial services for the poor.**

*The entire report can be downloaded at:*
http://www.brookings.edu/metro/pubs/20041001_Banking.pdf

## America's Home Forecast: The Next Decade for Housing and Mortgage Finance

**Written by chief economists at Fannie Mae, the National Association of Realtors, the Independent Community Bankers of America, Freddie Mac and the National Association of Home Builders and published by the Homeownership Alliance, this research asks how will the housing sector perform as the economy and financial markets move beyond the recent cycle of recession and uneven recovery to bona fide expansion in the years ahead. This study takes a long-term focus, producing ranges of forecasts for the next 10 years (2004-2013) abstracting from potential cyclical fluctuations during the period. The publication also addresses the following topics: the outlook for housing demand and supply, including the impacts of net immigration on demographic trends; anticipated trends in the U.S. homeownership rate, considering prospective changes in the positions of major racial/ethnic groups in the population as well as prospective changes in homeownership rates for those groups; the outlook for home prices, focusing heavily on forecasts of per capita income growth as well as constraints on the supply of new housing; and the future of mortgage market demand and supply, with a discussion of factors that influence overall leverage.**

*Download the full study at:*
http://www.freddiemac.com/news/pdf/americas_home_forecast.pdf#search='America's%20Home%20Forecast:%20%20The%20Next%20Decade%20for%20Housing%20and%20Mortgage%20Finance'.

# Two Unique Projects Seek to Reclaim Baltimore's Abandoned Properties

*by Frank McNeil*

Take a walk down the streets of some of Baltimore's neighborhoods and you may feel like you're entering a ghost town. Neighborhoods that once bustled with proud homeowners now stand as abandoned properties that no one claims or even wants to call home. "There isn't a day that goes by when I don't hear from a resident, or business owner, or someone else who asks me: 'Why can't you do anything about Baltimore's vacant buildings?'" said Martin O'Malley, Baltimore's mayor.

The city government is very close to changing this phenomenon through an ambitious and unprecedented plan to address the problem of thousands of vacant and abandoned structures in Baltimore City. The SCOPE (Selling City-Owned Properties Efficiently) Project and Project 5000 aim to return 5,000 abandoned properties and lots to productive use. Project 5000 aggressively seeks tax sale foreclosures, quick-takes, and traditional acquisitions, and transfers vacant Housing Authority of Baltimore City (HABC) properties. The projects also increase capital bond authority from 45 to 60 million; direct more than one-third of that to housing and community development projects; call on law firms and title companies to help clear titles; and call on local businesses and realtors to discount services.

***The SCOPE (Selling City-Owned Properties Efficiently) Project and Project 5000 aim to return 5,000 abandoned properties and lots to productive use.***

Martin O'Malley, Baltimore's mayor

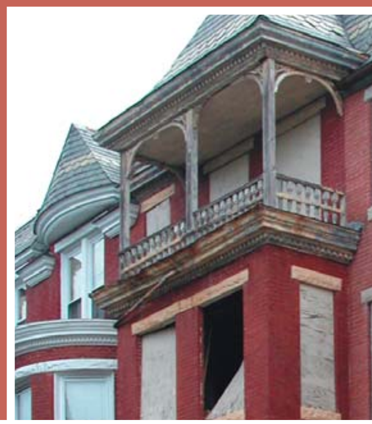
### Changing the SCOPE of Things

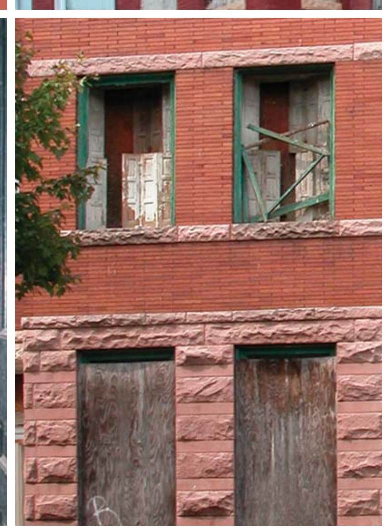
The SCOPE Project, the only project of its type in the nation, is a cooperative project between the city of Baltimore, the Greater Baltimore Board of Realtors, and the Baltimore Economy and Efficiency Foundation (BEEF). In this project, the city government uses real estate professionals in order to use the marketplace to sell or distribute these properties in the most efficient and most profitable manner. SCOPE seeks to capitalize on the marketing knowledge and professional expertise that the real estate industry and experienced real estate agents offer. The project is designed to create a simplified and cost-effective process for putting vacant and underutilized city-owned properties on the open market and into the hands of responsible buyers. In order to make sure that those responsible buyers are also not part of the flipping problem in this city, the Community Law Center screens the potential owners to make sure that they don't intend to flip the property.

### Setting Goals

After the 2000 Census was published, city officials discovered there were more than 40,000 unoccupied units, more than 16,000 vacant-house violations and more than 10,000 vacant lots. These vacancies were caused mostly by the exodus of residents who sought better schools and less crime in the suburbs and surrounding areas. Vacant and abandoned properties can be problematic because they can: serve as criminal activity magnets; decrease property values; increase neighborhood blight; become public health nuisances as a location for vermin to gather; lose revenues for the city; stifle large-scale redevelopment; and drain city resources. The properties are difficult to acquire because there are laws that protect property owners from unwarranted government seizure, which can make it difficult for entities like municipal governments to take control and resell or disperse the properties. These properties were usually small, non-contiguous, and scattered sometimes in a particular neighborhood or throughout the city.

**The project is designed to create a simplified and cost-effective process for putting vacant and underutilized city-owned properties on the open market and into the hands of responsible buyers.**





*Vacant buildings, such as these on Bolton and Callow streets, are a familiar eyesore in the City of Baltimore. The local government has devised an aggressive campaign to transform the abandoned neighborhoods.*

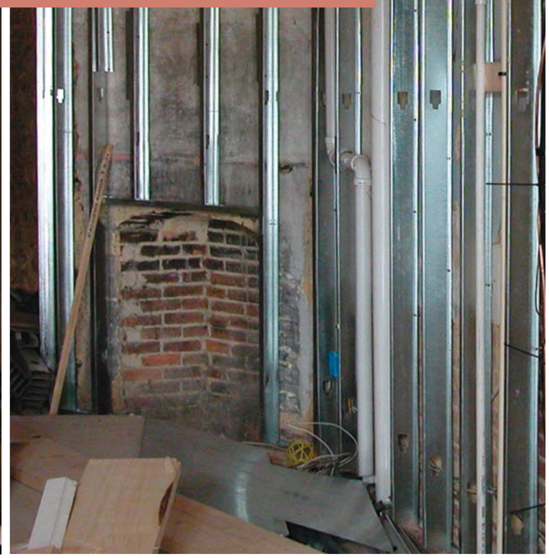

*Richard Pazornik (left) decided to rehabilitate a home in the Reservoir Hill neighborhood. Will Carter of Adapt Construction, took on the complex task of restoring the structure to its original glory.*

O'Malley unveiled Project 5000 during his 2002 State of the City address. Recognizing the potential value of vacant properties as a tool to attract families back to the city and as a way to promote economic development, O'Malley recruited several partners to ensure Project 5000's success. Some of the partners included the Mayor's Office of Neighborhoods, the departments of housing, transportation, planning, finance, and police, and the Baltimore Development Corporation (the city's economic development agency.)

In addition, the city has saved approximately $5 million in litigation services through pro-bono legal services from private law firms and nonprofit groups like the Community Law Center ($3.2 million). Chicago Title supplied half-priced judgment reports ($62,000); The Daily Record provided discounted publishing costs ($1.4 million); the courts waived filing fees ($340,000); and the sheriff's office waived posting fees ($93,000).

Moreover, the city needed to involve the real estate industry in this process since these properties do not offer enough incentive for profit to interest large real estate development companies. The partnership between the Greater Baltimore Board of Realtors and the city created a way to address the disposition of properties. Anyone who has had to maneuver through the corridors of city hall can attest that bringing together any city's bureaucrats and the business community's need to turn a profit quickly can be challenging. However, the O'Malley administration and the Board of Realtors worked together to create a whole new set of contract forms, based on the normal Maryland Association of Realtors' sales contract to overcome the problem. It is believed that this is the only program of its type in the country to use non-city government employees as the main representatives working with the properties that are to be sold. *The Daily Record*, Baltimore's business newspaper, recognized this uniqueness by naming the SCOPE project as one of the city's top 25 "Innovator of the Year" programs.

Since it's unveiling in 2003, Project SCOPE has surpassed all expectations. In the first round of SCOPE, 63 properties were offered to realtors and to date, 51 of

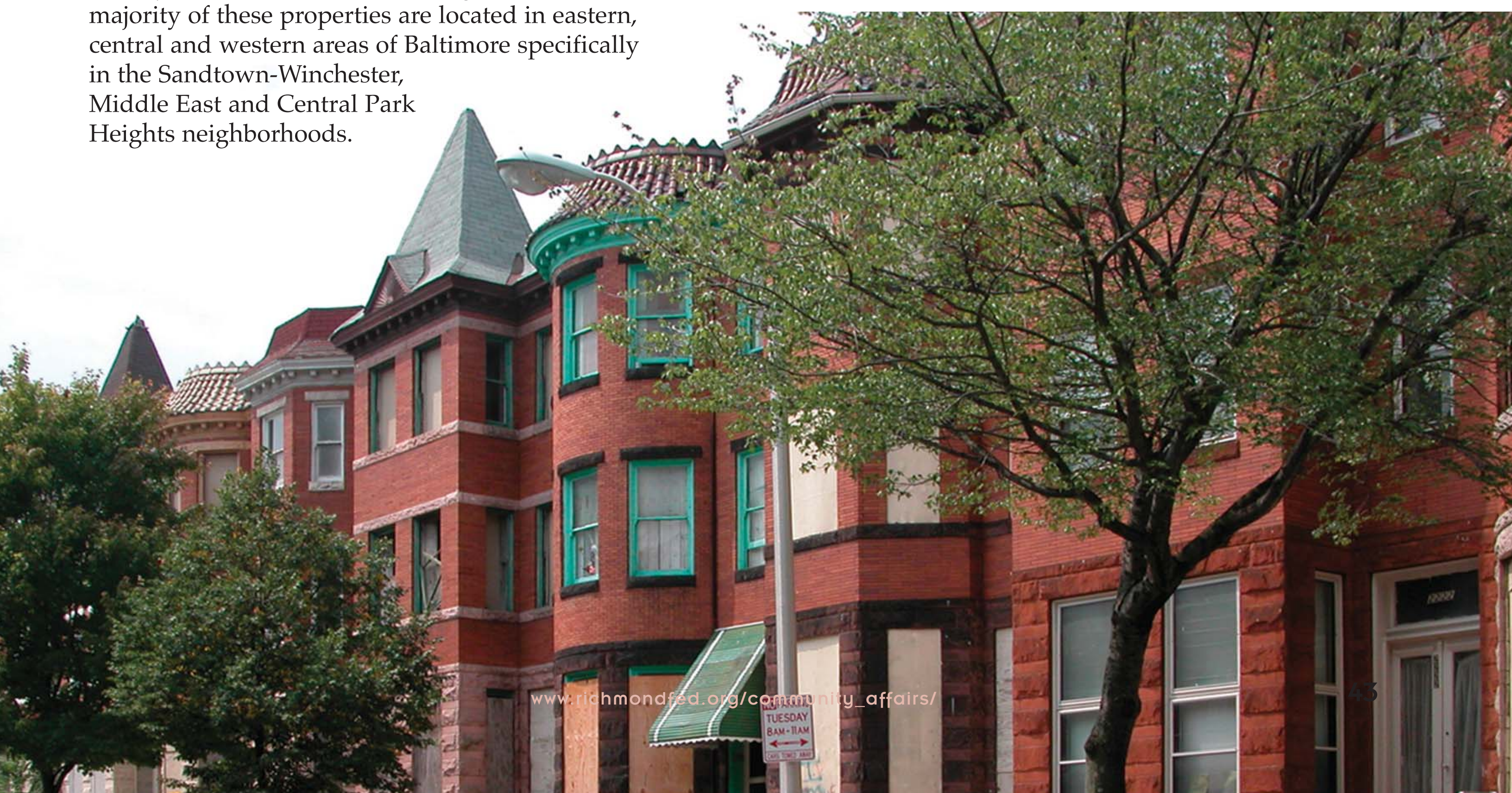


***Since it's unveiling in 2003, Project SCOPE has surpassed all expectations. In the first round of SCOPE, 63 properties were offered to realtors and to date, 51 of those properties have been sold or are under contract.***

those properties have been sold or are under contract. Thus far, the city is very close to its goal and has 4,911 acquisitions in process. Tax-sale foreclosures are expected to produce approximately 2,700 of these acquisitions from foreclosure cases. The city has assigned another 220 properties to nonprofit organizations. Condemnation of properties should produce more than 1,000 properties and the Housing Authority of Baltimore City (HABC) has scattered-site inventory of about 1,600 units. More than 70 percent of the targeted properties are in just 10 of more than 260 neighborhoods. The majority of these properties are located in eastern, central and western areas of Baltimore specifically in the Sandtown-Winchester, Middle East and Central Park Heights neighborhoods.

### Returning to Roots

Richard Pazornik is a prime example of how Project 5000 and the SCOPE Project are working. His is one of the first to settle and certainly the first to have its renovations completed and an occupancy permit issued. He acquired a property in the Reservoir Hill neighborhood of the city where Baltimore's Jewish elite lived, including 19th century writer Gertrude Stein. As part of the Reservoir Hill Revitalization Initiative, which encouraged




*Anthony Leonard, a school teacher, and his wife, decided to move into the neighborhood after searching for homes in the DC/ Maryland area.*

homeowners to purchase one of the many vacant units in the neighborhood, Pazornik chose the property near where his parents were raised because he felt a desire to return to his family's roots. Originally built in the 1920s, Pazornik purchased the property for $25,000 and has invested another $150,000 for extensive renovations. "Positive things are happening here and it is exciting to be a part of the rejuvenation of this great Baltimore neighborhood." The partnership between the Reservoir Hill Improvement Committee, the Greater Baltimore Board of Realtors and Jubilee Housing helped potential buyers like Pazornik maneuver the process of acquiring one of the available properties. The HABC also released a request for quotes for the purchase of 40 of its units in the Reservoir Hill neighborhood. Although Pazornik said he would definitely do the program again, he wished that the process had been more streamlined.

Wayne Curtis, a realtor at Long and Foster who has several properties in the neighborhood and is one of the 10 realtors selected from a pool of 100 applicants to participate in these programs, also echoes this sentiment since the process spans several city departments. Curtis had to wait for various departments to complete paper work before obtaining the deed to complete settlement.

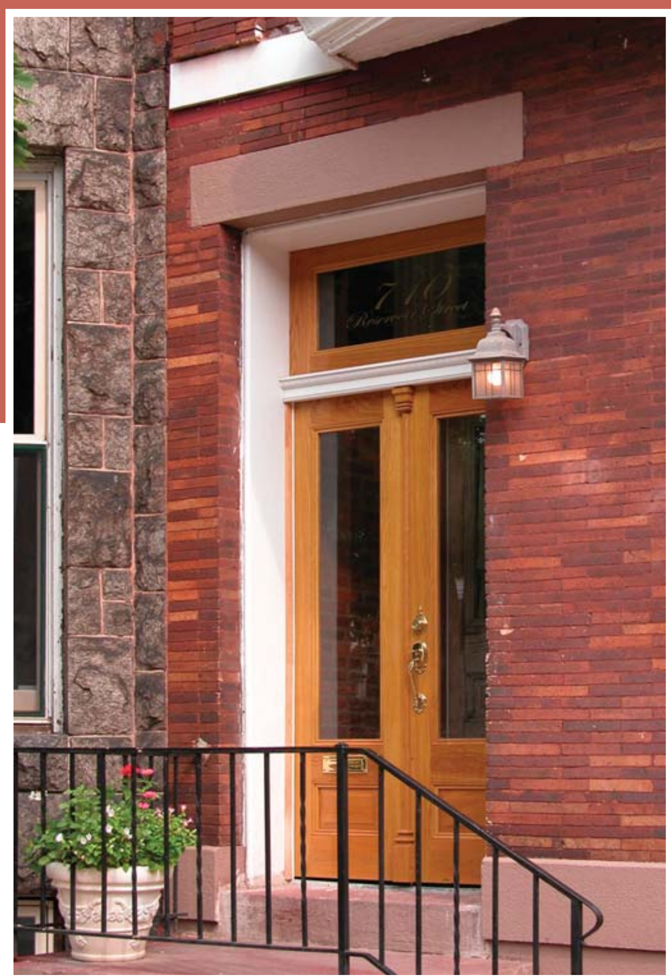
## Vacant Properties Campaign Creates Opportunity

The sight of vacant and abandoned properties is a familiar scene around many of the major cities across the country. Governments across the country, like Baltimore, have decided to take action about this complex issue. The National Vacant Properties Campaign, a project of Smart Growth America, the Local Initiatives Support Corporation, the International City/County Management Association and the National Trust for Historic Preservation hopes to make these localities efforts easier. Funded by the Fannie Mae Foundation and the U.S. Environmental Protection Agency, the campaign's goal is to make vacant properties a priority by building a national network of leaders and experts; providing tools to communities; raising awareness through communications; and providing technical assistance and training.

The campaign, chaired by Don Chen of Smart Growth America focuses on properties — homes, factories, stores and vacant lots — that are not legally occupied, show signs of neglect or pose a public nuisance. For the most part, owners of such properties have failed to fulfill responsibilities such as paying taxes, maintaining the physical condition or appearance of the site, or safely securing the property. According to a 2001 study, researchers from Philadelphia found that houses within 150 feet of a neglected vacant property experienced a net loss of value of $7,627. Those within 150 to 300 feet experienced a loss in value of $6,819 and those within 300 to 450 feet of such a property depreciated by $3,542. The consequence of having a significant number of abandoned properties includes a reduction of tax revenues, potential fire hazards and the possible attraction of crime. Each year, several reports are released with useful information on best practices and successful polices. Part of the campaign's function is to use its website as a clearinghouse for these reports.

*For more information about the campaign, contact John Bailey at Smart Growth America at* jbailey@smartgrowthamerica.org or visit www.vacantproperties.org.

**Those participating in these programs are optimistic about the number of acquisitions that they have successfully converted back into productive use.**



In Phase I of the program, it took seven to eight months to settle properties. Curtis, as well as others, have voiced concern about the lengthy process. A recent article in the August 1, 2004, edition of the *Baltimore Sun*, "Program Acquiring Vacant Properties Loses Momentum," emphasized the slowdown of the program and reports that despite an aggressive start, the city only holds title to half of the desired 5,000 lots. In fact, it took the city two years to clear titles to the first 2,200 properties and another seven months to clear the next 33. In response to this challenge, the city has allocated approximately $70,000 to the court system to hire more workers and plans to give $47,000 more to increase staff with hopes of expediting the process.

## Chesapeake Habitat for Humanity

Since 1982, Chesapeake Habitat for Humanity has been renovating properties in northeast Baltimore City, currently focusing on the Waverly, Better Waverly and Pen Lucy neighborhoods. Eighty houses have been completed to date. Currently, they average more than 10 properties per year, providing low-income families and individuals new homes with no interest mortgages, built in part with 300 hours of sweat equity. Chesapeake Habitat's recent work includes a significant commitment to renovate at least 15 properties in Pen Lucy, including 13 on Cator Avenue. Project 5000 and the SCOPE Project are instrumental in ensuring that this succeeds. With the help of these programs, they can further increase the homeownership rate, lower crime and leverage additional investment.

*Source:*
www.baltimorehousing.org/index/cd_5000_chesapeake.asp

### Completing a Difficult Task

Acquiring one of the vacant properties or lots in Baltimore most often requires being able to maneuver a maze of discovery and paperwork. One must first discover who owns the property and what liens if any are against it. Absentee landlords make this no small task considering their location could be in other cities and states across the country. To assist in this process organizations like the Community Law Center help by training lawyers who work for their pro bono project to apply various legal strategies to support comprehensive community revitalization initiatives like Project 5000 and the SCOPE Project.

Those participating in these programs are optimistic about the number of acquisitions that they have successfully converted back into productive use. Since the start of the program, over 2,200 properties have been returned to productive use in neighborhoods like Reservoir Hill, Sandtown-Winchester and Druid Heights. Plans are now underway to seek developers for two new condominium mid-rises in the Reservoir Hill area and to turn an old dilapidated commercial strip into a village center of offices and mixed-income apartments. The city and community stakeholders say

## *Percentage of Targeted Properties in Baltimore's 260-plus Neighborhoods*

| Neighborhood | Number of Properties | Percentage of Targeted Properties |
|---|---|---|
| Sandtown-Winchester | 519 | 12.4% |
| Middle East | 504 | 12.0% |
| Central Park Heights | 312 | 7.4% |
| Oliver | 267 | 6.4% |
| Upton | 266 | 6.3% |
| Druid Heights | 262 | 6.2% |
| Broadway East | 235 | 5.6% |
| Reservoir Hill | 212 | 5.1% |
| Poppleton | 203 | 4.9% |
| Harlem Park | 194 | 4.6% |

***The city and community stakeholders say they are ecstatic to see that these neighborhoods are receiving the sorely needed infusion of capital, families and attention that has been absent in the area.***

they are ecstatic to see that these neighborhoods are receiving the sorely needed infusion of capital, families and attention that has been absent in the area. Jody Landers, executive vice president of GBBR said, "By coming up with the right mix of cooperation, ingenuity and marketing, the SCOPE Program has exposed the hidden value that lies in the city's inventory of vacant properties and has yielded tremendous results." At the February 17 press conference, the mayor cited that sales from these properties have already generated more than $1.3 million in revenue for the city and that there are plans to make hundreds more properties available through SCOPE in the next several years. **MW**

*For more information on Project 5000 visit*
http://www.baltimorehousing.org/index/cd_5000.asp.

*To learn more about the SCOPE Project visit*
http://www.realtorsbaltimore.com/scope.

# Peter Ponne

*Senior Vice President and Manager, SunTrust CDC, Mid-Atlantic Region*

*by Jennie Blizzard*

### 1. How did you get into the banking business?

I have been in community development lending in either the public or the private sector since 1975. I began my banking career in 1986 with Loyola Federal Savings Bank; Loyola was purchased by Crestar which was eventually purchased by SunTrust. Throughout my career, I have been extremely fortunate to have worked both for and with dedicated professionals who have recognized the importance of this effort and supported it completely. I believe that is a line of business where a person can achieve both professional as well as personal satisfaction. The projects you finance or invest in truly do make a difference in people's lives.

### 2. What are your views on the Community Reinvestment Act? How do you think it has helped or hurt community development financing efforts? Do you think the act is still needed?

I think the Community Reinvestment Act is a good thing. It has helped banks focus on community development lending and as a result, banking institutions have realized that community development lending is not only the right thing to do; it can be profitable for the institution. In the beginning, the legislation was necessary in order for some banks to adequately serve the low- and moderate- income community. It also encouraged the banks to be more proactive to identify the market needs and solicit the business from the community.

### 3. How would you describe the typical banker's understanding of community investment lending now compared to their understanding almost 20 years ago?

Twenty years ago most community development lenders were in the role by accident. It was thought of as something that had to be done by the bank in order to appease the regulators and the community. Now we have people choosing the field with advanced degrees. It has become more mainstream. It is a creative, complex and satisfying area of real estate finance. Over the past 20+ years, this business has gone from being perceived as a charity to a profitable business opportunity for the lender that makes the commitment and dedicates the resources.

### 4. What do you see as the future direction for community development lending?

I think it is continuing to evolve. It has become a recognized line of business in many large institutions. It can be complex (multi-layered financing arrangements and tax credit deals) and therefore, requires a special skill set. In order to be successful, a bank needs folks that are committed to understanding the business.

### 5. You've been a member of the Federal Reserve Bank of Richmond's Community Development Advisory Council since 2003. How would you describe the experience?

It has been a wonderful experience. We as practitioners tend to become so focused on our job and the area we cover that we sometimes lose sight of the bigger picture. The council has provided me the opportunity to learn more about the world of monetary policy and to share with the Federal Reserve the experiences and challenges within my world. All along I am hearing about other challenges and solutions from other parts of the region. What a great way to exchange information!

### 6. Payday lenders and the check cashing services are providing alternative financial services to many low- to moderate-income people. Do you think banks should be concerned about such services? How do you think traditional financial institutions can attempt to gain some of these unbanked customers?

I think the banking industry should be very concerned about check cashing services, but in many communities that's the only way people can get checks cashed. It is not a problem that can be easily solved. Many of the people that utilize these services are very suspect of banks, so even if there is a banking presence in the community they may be reluctant to use it. Banks have to continue to "sell" themselves to the community, but the community needs to understand that a bank must be profitable in order to survive. **MW**

*Please accept our appreciation for the invaluable article about Five Rivers CDC. Oftentimes it's challenging to succinctly and lucidly discuss our mission with interested parties. Your article succeeded on both fronts.*

**Beulah White**
*Executive Director*
*Five Rivers Community Development Corporation*
Georgetown, SC

# Keep Them Coming!

*On behalf of the City of Petersburg, I would like to extend our sincere appreciation for the execution of a wonderful cover story, "Petersburg Rediscovered," in your recent MARKETWISE issue. The publication has been widely distributed and enjoyed. Truly, the revitalization efforts of Petersburg are as extensive as the variety of people who have discovered the magic of a historically rich city that possesses a profound sense of community.*

**Annie M. Mickens**
*Mayor*
Petersburg, VA

Don't forget to send your letter to the editor to give constructive comments about our publication. Email your comments with your name, address and daytime phone number to Jennie.Blizzard@rich.frb.org.

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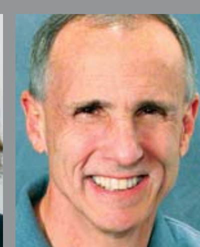

**Geep**


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***MARKETWISE*** *welcomes story ideas and suggestions from lenders, community organizations and economic development professionals.*

*Comments to the editor are welcomed. E-mail: Jennie.Blizzard@rich.frb.org*


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