FEDERAL RESERVE BANK of ATLANTA

Community Development

Partners
in community and economic development

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In This Issue

Nonprofit Success Stories
by Courtney Dufries

Nonprofit organizations come in all shapes and sizes. Some specialize in selected industries, such as health care, the environment, or education. Others provide technical assistance or advocacy for specific issues, such as homelessness. One organization that is critical to the success of so many community development efforts is the nonprofit developer. This issue of Partners takes a look at a handful of successful nonprofit organizations.

Managing a nonprofit organization is not an easy task. Many nonprofit developers are undercapitalized and struggle to fund long-term projects while covering short-term operating expenses. Like for-profit businesses, many nonprofit organizations do not survive and while we celebrate and feature the successes, we must also look at the reasons many fail.

A common misperception surrounding nonprofits is that their role is to resolve difficult issues by taking on more risk when, in fact, the solution is in sound business management and creative thinking to structure well thought-out transactions. Mismanagement, fraud, and internal disputes have caused the failure of more than one organization. Poor investments, including socially desirable investments, and weak internal controls have contributed as well. A strong board of directors combined with an experienced executive director or president is critical; a weakness in either area can be devastating. Many nonprofit developers begin as advocacy groups and, over time, develop the expertise needed to revitalize communities. While advocates have an important—often critical—role in promoting change, it is very difficult for any one organization to be both full-time advocate and developer.

Developers must build consensus and satisfy diverse needs to ensure a project's completion. A nonadversarial approach is often critical to obtain funds to finance the project and ensure that sufficient development fees are generated to cover overhead expenses. For this reason, most successful nonprofit developers operate in a traditional business-like manner and choose advocacy roles carefully.

Advocacy groups, on the other hand, have different funding sources and different agendas. Their role is to advocate change and their methodologies are necessarily different. Direct confrontation of issues is frequently the desired course of action. Although some advocates work quietly behind the scenes, others are out in the open, occasionally with organized protests and media coverage. Advocacy groups raise important issues and can help ensure timely and meaningful responses to significant concerns.

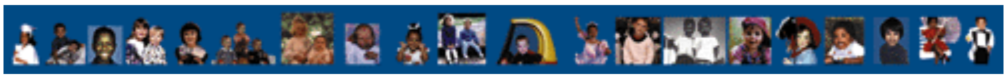
Nonprofit organizations are as diverse as the people in the communities they serve and all have important roles. Recognizing their importance to community development programs, we have dedicated this issue of Partners to featuring four types of nonprofit organizations that have each achieved success.

The first organization featured is a religious-based nonprofit that successfully utilized a multi-bank community development corporation, with a loan consortium, the local government, and other funding sources to assist low- and moderate-income persons in two small Louisiana communities. Consensus building was key to success.

Next, celebrating it's twenty-year anniversary, is the Neighborhood Housing Services of New Orleans, a local NeighborWorks affiliate. This NHS has developed its expertise in neighborhood renovation programs, and has become the seventh largest producer of affordable housing in the NeighborWorks network, which is sponsored by the Neighborhood Reinvestment Corporation.

Florida is home to many strong community-based organizations. To explore the business nonprofit perspective, we are pleased to feature an article on Community Equity Investments, Inc., a successful business loan fund. And while on the topic of lending, we also feature an article from a nonprofit loan fund located in Michigan that shares its experience in how loans perform, and offers seven fundamental concepts to ensure timely loan repayment.

We regret that this newsletter presents only a sample of the many fine nonprofit organizations operating today. However, since its inception five years ago, *Partners* has featured articles on over 25 nonprofit organizations, and will undoubtedly feature many more. Perhaps your organization will be next!



Catholic Housing Services and Parish Government Form Partnership

Many communities feature fine development programs. However, Houma, Louisiana is worthy of special recognition because the community effectively combined several good programs to address its affordable housing needs. Houma (pronounced HO *ma*), has developed a loan consortium that utilizes innovative underwriting criteria, a bank-sponsored community development corporation, a religious-based nonprofit housing development organization, a Federal Home Loan Bank grant program, and community development block grants to address its housing needs. And it all began with a hurricane.

Hurricane Andrew blew through Houma in August of 1992, leaving serious losses behind. When residents started to rebuild, they had to comply with stronger building codes, which drove up the cost of housing. Recognizing the community's needs and accompanying problems, several organizations began working together to develop solutions.

Catholic Housing Services of the Diocese of Houma-Thibodaux, a nonprofit 501(c)(3) organization, was formed with a $1 million grant provided by Catholic Charities USA. Some of the money is used for emergency repairs, but most is used to provide home ownership opportunities for low- and moderate-income persons. Catholic Housing Services (CHS) is building three bedroom, two bath "5-Star Energy Efficient" homes using 20 percent recycled materials, in the downtown area. In fact, even with central heating and air conditioning, the state energy department projects approximate annual heating expenses of only $67, annual cooling expenses of only $145, and annual water heating expenses of only $132.

"The church wants to provide decent, safe and affordable houses because they are a foundation for a more stable family, and ultimately, a more stable community," said Paul James, CHS executive director. "In 25 years, there has been no new residential construction in that [downtown] area, but by concentrating on that area we hope to raise the neighborhood wealth."

The grant money was made available for down payment assistance and closing costs, or to "buy down" the interest rate, as needed to qualify families whose annual income is less than 80 percent of the area median income. (Eighty percent of the median income is currently $25,600 for a family of four.) *For an example of the loan financing terms, see the "Houma Loans" article*.

To help offset higher building costs following the hurricane and to qualify low- and moderate-income home buyers, the Terrebonne Parish consolidated government has provided $120 thousand in additional grant money through the federal HOME program. The Federal Home Loan Bank of Dallas has provided a $74,000 grant through its Affordable Housing Program to reduce the selling price of the homes built by CHS. First National Bank of Houma submitted the Federal Home Loan Bank grant request on behalf of CHS.

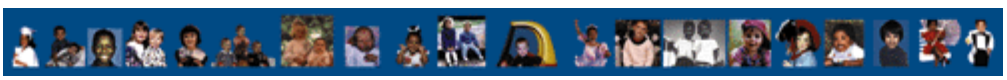
According to Sharon Roppolo, First National Bank executive vice president, "The parish government has been a significant partner in planning the development." The cooperative effort has paid enormous dividends. "Private developers are showing an interest in the area now," said Roppolo, "and it has stimulated other homeowners to renovate their own houses. That's exactly what you want to happen."

Several local financial institutions also formed the Houma Terrebonne Community Development Corporation to address similar needs. Starting with a $100,000 loan pool, the multi-bank CDC will acquire vacant lots or homes in need of significant rehabilitation. Working through the CDC, new homes will be constructed or old homes repaired and sold to low- and moderate-income families. The CDC will have the flexibility to do whatever is necessary to address the local housing needs, including subcontracting with Catholic Housing Services to construct the homes. The CDC hopes to build or renovate about twenty homes this year.

Members of the CDC include First National Bank of Houma, Hibernia Bank, St. Mary Bank and Trust Company, South Louisiana Bank, Banc One, and Regions Bank. In addition to their initial contributions, the CDC members have all provided innovative affordable housing financing programs.

According to Sharon Roppolo, "Our expectations are that these loans will perform as well as our conventional loans. The home buyer education program provides the financial tools and techniques to help people manage their money. People realize this is an opportunity they won't want to forfeit."

For more information contact Paul James, CHS Executive Director, at 504/876-0490.



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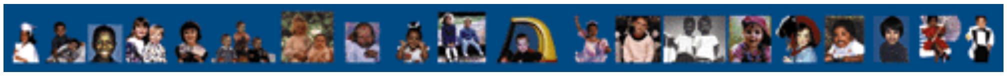


Houma Loans

by Courtney Dufries

In an effort to increase the number of families eligible for home purchase through Catholic Housing Services, the nonprofit has joined forces with local financial institutions to develop an innovative financing program that allows home buyers with incomes as low as $7 per hour to qualify for the purchase of homes selling for $62,000.

Using an innovate financing technique called the "Deposit Option" that was featured in the Federal Reserve Bank of Atlanta's Partners software program for home mortgage lending, the nonprofit can more than double the number of families eligible to purchase homes with the grant money available. The following is an example of how the financing program is designed to work in Houma.

Given the criteria presented in the example provided, an applicant could only afford to purchase a $44,538 home, even with assistance provided by the Federal Home Loan Bank of Dallas and the Terrebonne Parish government. However, by utilizing a $6,600 grant from Catholic Housing Services, the applicant could meet the underwriting criteria and qualify for a $62,000 purchase.

Unfortunately, providing a $6,600 grant for each potential home buyer is expensive and would prevent the nonprofit from providing other services, such as emergency grants, land acquisition expenses, or other programs. By utilizing the "Deposit Option" the nonprofit can reduce the amount of the grant needed from $6,600 to only $3,272.

Applicant Income:	$1,200 monthly (assumption)
Home Purchase Price:	$62,000
Applicant out of pocket expenses:	$1,500 (assumption)
Federal Home Loan Bank assistance:	$6,000
Terrebonne Parish assistance:	$10,000
Taxes and Insurance on home:	$40 monthly
Applicant's other debt payments:	$90 monthly (assumption)
Underwriting Criteria:	

"Front" ratio *	28%	"Back" ratio **	38%

Term in months:	360	Interest rate:	8.25%

* (Principal, Interest, Taxes and Insurance/monthly gross income)

** (PITI plus other monthly debt payments/monthly gross income)

Required principal and interest payment:	$345.58
Applicant's available payment:	$296.00
Shortfall:	$49.58 /mo.

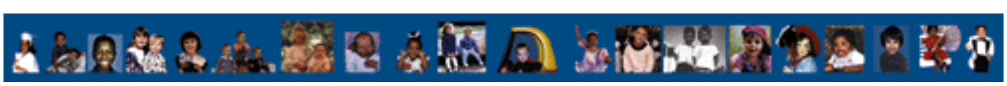
Catholic Housing Services Assistance needed:	$6,600
Deposit Option alternative assistance provided:	$3,272
Catholic Housing Services Savings on each home:	$3,328

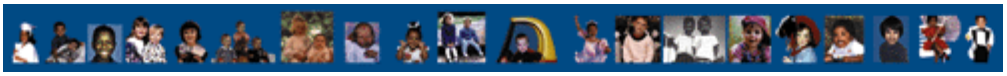
Instead of paying $6,600 at closing to qualify the applicant, the nonprofit will instead place a $3,272 deposit in a non-interest bearing account with a local participating lender. Each month for the first year the applicant pays $296 to cover the principal and interest payment on the loan, and the deposit account is automatically debited $49.58, the shortfall needed to cover the loan.

In the second year, the applicant increases his or her monthly payment by $4.96, to $300.96, and the deposit account is debited for only $44.62. The subsidy is phased-out over ten years this way so that each year, the applicant pays an additional $4.96 a month for that year, until the subsidy is completely eliminated. As a result, the amount of subsidy needed is only $3,372 instead of $6,600, saving the nonprofit $3,328 per home!

Of course, the lender and nonprofit should use caution to ensure that the borrower is never hit with an excessive payment increase (referred to as payment shock) in any year. In this case, the monthly increase amounts to only $4.96 a month, or .41 percent of the applicant's monthly income. In other words, the borrower needs an income increase of less than 5 cents an hour each year for the 10 year subsidy period to never experience a relative increase in payments. And the nonprofit can double the number of families it helps qualify for loans. Further, because the lender has the deposit account as additional collateral on the loan, its initial loan to value ratio is lower than it would be without the deposit option.¨

For more information on the "Deposit Option," contact Courtney Dufries at the Federal Reserve Bank of Atlanta, (404) 498-7226.





Neighborhood Housing Services of New Orleans Celebrates 20 Years of Service

Neighborhood Housing Services of New Orleans, Inc. was founded in 1977 as a private nonprofit 501(c)3 corporation that works to revitalize declining neighborhoods and provide affordable housing opportunities. It was established on the premise that a partnership of neighborhood residents, financial institutions, businesses and local government can stop the decline of, promote reinvestment in, and restore pride and confidence in urban neighborhoods.

NHS of New Orleans, Inc. (NHS) is part of a nationwide network of NHS programs known as NeighborWorks. The NHS is a part of a national initiative launched by the NeighborWorks Network to create 10,000 first time home buyers by 1998. In the first 36 months of the campaign, members of the NeighborWorks Network have assisted 6,530 people in becoming home owners. NHS of New Orleans is the seventh highest producer in the national Network.

The NHS mission is to revitalize New Orleans neighborhoods by reducing the number of substandard or vacant houses and by increasing the number of homeowners.

In 1992, NHS began its Campaign for Home Ownership because it realized that increasing the number of homeowners in the city was necessary for the preservation and revitalization of its neighborhoods. Since then, NHS has assisted people in becoming first time home buyers through a program that offers both individual counseling and classroom training.

Loan pre-qualification and counseling is designed to help clients determine how much they are able to borrow to buy a home. If clients have problems with their credit or they lack savings, NHS helps them develop a plan to overcome these obstacles. Very often, a person who does not qualify initially for a loan will be able to qualify within six months to a year. NHS provided counseling for 453 families in 1995.

Home ownership training includes twelve hours of classroom instruction taught by lenders, realtors, appraisers, insurance representatives, credit counselors and NHS staff to prepare first-time home buyers for the realities of buying, rehabilitating and maintaining a home. Training is offered in the NHS office each month. In 1995, 299 individuals graduated from the NHS classes.

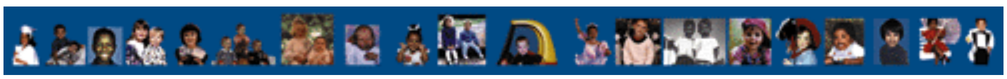
Pictured above are before and after photographs of a Franfort St. home renovated by NHS of New Orleans. Financing was provided by Banc One and city CDBG funds.

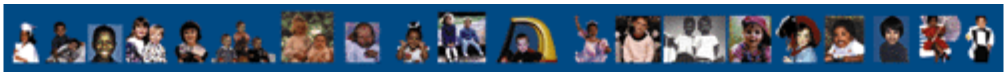
Financial assistance is also available to qualified low-income clients in the form of amortized, low-interest second mortgage loans. While these loans must be repaid on a monthly basis, the interest rate does not exceed 3%. NHS often provides these loans in tandem with a conventional lender, using public funds to leverage private resources. NHS also provides loans to low-income homeowners, along with counseling and construction management services to facilitate the renovation of their homes. NHS originated and closed 19 rehabilitation loans in 1995, and currently has 129 loans in its loan portfolio with a total value of $2,022,727.

In 1995, 171 individuals became first-time home buyers through the assistance provided by NHS. Their average income was $22,438, significantly less than the $34,700 median income for New Orleans. NHS assistance resulted in $7,382,077 in first mortgage loans. The average loan amount was $51,264.

NHS's and similar programs have been developed in concert with the local/private sector by the Neighborhood Reinvestment Corporation (NRC), headquartered in Washington, DC, with regional offices located throughout the country. NRC is a congressionally funded nonprofit corporation whose board of directors is comprised of top representatives of the financial regulatory agencies including the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Secretary of the Department of Housing and Urban Development.

For more information about the NHS of New Orleans, contact Lauren Anderson, Executive Director, at 504/899-5900.





CEII

By Daniel R. Horvath

Community Equity Investments, Inc. (CEII) serves Escambia County and Northwest Florida with small business loan programs and affordable housing. The author is president of the CDC.

CEII is a Community Development Corporation ("CDC") which was first incorporated in 1974 as a federally-funded CDC. It is a community-controlled nonprofit corporation with a board of directors comprised of 21 members, 11 of whom are directly elected by residents of Escambia County, Florida. CEII has a 12-member staff.

Funding for CEII program administration is derived primarily from earnings generated by its small business lending programs, affordable housing rentals and management fees, and its sale of single family units. A small annual grant is received from the Florida Department of Community Affairs for general administration. A substantial annual grant is received from the SBA for the provision of training and technical assistance services to SBA microloan borrowers.

CEII'S Revolving Loan Fund ("RLF")

In 1982 CEII initiated its first small business loan program—the "RLF"—which was funded with a loan from the Florida Department of Community Affairs ("DCA"). With the active participation of its bank partners, CEII developed the RLF structure still in use today. CEII extensively promotes the RLF, and other small business loan programs and handles all intake of program inquiries. CEII provides potential applicants with a package that describes the program, contains a loan application, credit release form, and other program specific materials. CEII provides technical assistance to applicants in completing their application and in assembling all accompanying documentation. Once a final application is in hand, CEII staff presents its loan recommendations to its Loan Committee, comprised of CEII board members who include both community and bank representatives. All loans must be approved by both the loan committee and by the full CEII board of directors. The Committee generally sets loan terms and conditions—particularly with regard to collateral requirements. Following approval the loan is processed for closing and CEII staff prepares a complete loan closing documentation package.

CEII makes the RLF loan directly to the borrower and the loan is immediately sold to one of CEII's bank partners for servicing just like any other loan. CEII uses a simultaneous closing procedure coordinated by the bank's closing attorney. The attorney is free to use either CEII's standard loan documents or to substitute the bank's forms.

The participating bank brings a check for the full amount of the loan to the closing. CEII then endorses all loan documents over to the bank which provides CEII with payment in full for the loan. CEII then purchases a certificate of deposit from the bank for 90% of the full loan amount, providing an additional source of loan collateral available to the bank as a first recourse. Additional bank losses may be recovered from borrower-provided collateral for the loan. Any remaining collateral after the bank has recovered its loss is transferred back to CEII where the CDC initiates its own loan collection activity on any defaulted loans.

This entire process is structured to best meet the needs of the bank and the nonprofit. The bank is purchasing a small business loan typically located in an economically distressed community and, in most cases, made to either a minority or woman-owned business enterprise. Thus, it is an excellent commercial CRA-type loan and is virtually risk free in light of the 90% guarantee CD feature.

The photo above was taken at DeVilliers Gardens by Joan Harris, Vice President of Housing, CEII; hand coloring by Elizabeth Black, Community Affairs Staff, Federal Reserve Bank of Atlanta.

From CEII's standpoint there are a number of advantages. Ten percent of each loan (not required to go into the guarantee CD) is leveraged back into its loan pool to make additional loans. A rate of 7% is paid to CEII on the 90% guaranty CDs thereby providing CEII with a source of administrative funds. All of the RLF loans are set at a 10% interest rate which yields the bank a 3% return for its loan servicing activity.

The relationship between CEII and the participating banks is governed by a Bank Participation Agreement which is entered into with all participating banks. Generally, the bank that refers the client to CEII is given the first right of refusal to purchase that particular loan. In a nonbank referral situation, CEII generally uses the client's existing bank relationship or provides a list of participating banks and gives the client the option of selecting the bank he or she prefers.

Since inception of the RLF in 1982, CEII has closed 120 small business loans totaling $4.6 million, for an average loan size of $38,000. Loans can not exceed $75,000, have a maximum term of 15 years and have an interest rate of 10%. Applicant businesses must be located in Escambia County, Florida.

The program was established to promote job creation in addition to providing business ownership opportunities to minority and women owned businesses. Therefore, CEII carefully tracks job creation in order to make sure it complies with the Florida statutory mandate that at least one new job be created for every $10,000 loaned. CEII's 120 loans have created 575 new jobs, for an average cost per job of only $8,000. All funding for this program was derived from the Florida Department of Community Affairs' CDC Support and Assistance Program with 0% interest loans having a maximum 15 year term.

CEII's cumulative loss rate after 14 years of lending is still only 3% of its total $4.6 million portfolio.

SBA Microenterprise Loan Program

Based upon its successful operation of the RLF program, CEII became one of the first 35 intermediaries selected to participate in a new SBA pilot program to provide loans of under $25,000. CEII's first loans were made in 1992 and the program has grown to its present loan portfolio level of 88 loans totaling $1,430,000. The average loan size is $16,000 and the program has created or maintained a total of 210 jobs, at an average cost of $6,800/job.

Applicant businesses may be located anywhere in the 15 county microloan service area, which ranges from Pensacola to Tallahassee. The SBA now has provided CEII with three separate loans totaling $2 million with an interest rate averaging 5%. All of CEII's microloans are set at 11% and carry a maximum 5 year term.

The program is run in much the same manner as the RLF program—with one major difference. The SBA does not permit the sale of microloans and requires the lender to handle all loan servicing in-house. Thus, CEII does not sell its loans to participating banks as is done with the RLF program. This requirement forced CEII to develop in-house loan servicing capacity.

In addition to providing loan funds, the SBA provides CEII with a substantial grant to provide extensive training and technical assistance services to its borrowers. CEII has one staff member dedicated solely to this function—providing periodic training classes and ongoing one-on-one technical assistance. The SBA microloan program was structured to have less restrictive collateral requirements than those established for the RLF program.

CEII anticipated a higher loan loss rate, but one that would be ameliorated by the provision of its technical assistance and training services. The end result has been a cumulative loss rate of 10% of its total microloan portfolio, less than its projected loss rate of up to 15%. Staff is continually seeking to reduce this rate through a combination of increased loan servicing and additional training and technical assistance services.

CEII's Small Business Loan Programs

Revolving Loan Fund (RLF)

- Loans may not exceed $75,000.
- Loans bear an interest rate of 10%.
- The maximum loan maturity is 15 years.
- Applicants must be located in Escambia County, Florida.

Microenterprise Loan Program

- Loans may not exceed $25,000.
- Loans bear an interest rate of 11%.
- The maximum loan maturity is 5 years.
- Applicants must be located in the 15 county microloan service area.

USDA Intermediary Relending Program ("IRP")

- Loans may not exceed $150,000.
- Loans bear an interest rate of 10%.
- The maximum loan maturity is 15 years.
- Applicants must be located in the 15 county microloan service area.

The SBA permits its microloan intermediary lenders to borrow a maximum of $2.5 million and CEII expects to reach that limit within the next 18 months. SBA requires repayment via ten year amortization and, as CEII pays down its loans, it expects to continue borrowing in order to maintain a capitalization level of $2.5 million for its SBA microenterprise loan program.

USDA Intermediary Relending Program ("IRP")

Building upon its previous successful loan program operations, CEII applied for designation as an Intermediary Relender under the USDA (formerly the Farmers Home Administration) IRP. CEII became the first IRP recipient in the State of Florida in late 1995 and closed its first loan in early 1996. Since then CEII has approved two additional loans for a cumulative total of $255,000, or an average loan size of $85,000.

IRP loans are available in the same 15 county lending area established for CEII's SBA micro program. However, applicant businesses must be located in "rural" areas, defined as either unincorporated areas or incorporated areas with populations of 25,000 or less. Loans can be as high as $150,000, carry a 15 year maximum term and bear an interest rate of 10%. The USDA provided CEII with an initial $1 million loan (at 1% interest) for 30 years.

Northwest Florida Black Business Investment Corporation ("BBIC")

Utilizing its network of contacts with state-wide and local banks in Northwest Florida, CEII spearheaded the effort to form the Northwest Florida BBIC. The BBIC program was established by the Florida legislature, which allocated $5 million for the formation of local BBICs serving distinct service areas in the state. The BBICs were required to generate at least $500,000 in bank investments which would then be matched 1:1 by the Florida Black Business Investment Board ("BBIB").

Summary of Small Business Program Results as of January 31, 1997

Revolving Loan Fund Program

Total Dollars Loaned Out	$ 4,600,000	Average Size Loan	$ 38,000
Total Number of Loans	120	Average Cost Per Job	$ 8,000
Number of Jobs Created	575	Start-up Businesses	42.5%
Lost/Defaulted	$ 140,000	Percentage of Loss	3%

Microloan Program

Total Dollars Loaned Out	$ 1,360,000	Average Size Loan	$ 16,000
Total Number of Loans	85	Average Cost Per Job	$ 6,500
Number of Jobs Created	210	Start-up Businesses	41%
Lost/Defaulted	$ 135,000	Percentage of Loss	10%

Intermediary Relending Program

Total Dollars Loaned Out	$ 255,000	Average Size Loan	$ 85,000
Total Number of Loans	3	Average Cost Per Job	$ 17,500
Number of Jobs Created	18	Start-up Businesses	66%
Lost/Defaulted	$ 0	Percentage of Loss	0%

Cumulative Small Business Loan Programs

Total Dollars Loaned Out	$6,215,000	Average Size Loan	$ 30,000
Total Number of Loans	208	Average Cost Per Job	$ 7,853
Number of Jobs Created	803	Start-up Businesses	50%
Lost/Defaulted	$ 275,000	Percentage of Loss	4.5%

Six programs were established in the larger urban areas of the state when CEII undertook the capitalization effort for the seventh BBIC, in Northwest Florida. CEII was successful in generating $550,000 in bank investments which were matched with $500,000 from the BBIB. The program provides loan guarantees to African American owned businesses located in the 15 county Northwest Florida region (ranging from Pensacola to Tallahassee). CEII operated the program on a day-to-day basis for about two years when the program was spun off for independent operation by the bank investors. The program is now based in Tallahassee.

Affordable Housing Rental Programs

CEII has also developed and now manages 109 units of rental housing. Some of those are described below. Management fees and other revenues derived from this activity form a major component of CEII's overall administrative budget.

DeVilliers Gardens is a 16 unit multi-family development financed with federal low income housing tax credits (purchased by the Enterprise Social Investment Corporation—affiliated with the Enterprise Foundation), state SAIL funds, a variety of other state funding, and conventional bank financing from Barnett Bank. The project is 100% occupied and is in its sixth year of operation. The total project cost was $750,000.

VBL Apartments is a 90 unit multi-family development consisting of three separate locations: Villa Barcelona, Belmont Gardens and the Lloyd House. The units were acquired from the Resolution Trust Corporation ("RTC") under its affordable housing disposition program. Financing was provided by the Federal Home Loan Bank of Atlanta through an AHP loan to AmSouth Bank and then to CEII; state and local HOME program funds; and a mix of other funding. The 90 units were fully rehabilitated and are predominantly rented to Section 8 tenants. The total project cost was $1.2 million.

Gadsden Street consists of three single family homes. The CDC acquired a single unit through a HUD foreclosure and was fully rehabilitated. Its large double lot permitted the construction of two new single family units on the same property. Site acquisition and construction financing were provided by the Calvert Foundation and the Florida Community Loan Fund. Permanent take-out financing was provided by the Escambia County HOME/SHIP program and conventional financing from Compass Bank. The total project cost was $135,000.

Stoddert Place is a 320 unit multi-family development presently under construction at a 25 acre location in West Pensacola near the Naval Air Station. It is a joint venture partnership between CEII and the Richman Group of Florida. A total of $22 million in project financing was provided via federal low income housing tax credits, state HOME funds, hurricane relief funds and other financing. These units will be rented primarily to eligible low- and moderate- income tenants.

Most rental developments are managed by CEII's wholly owned subsidiary, Gulfside Real Estate Development Corporation. With the completion of the Valcour Villas Development, CEII will have a total of 117 units of housing under direct management.

Affordable Housing Ownership Program

In partnership with Escambia County, CEII has developed a home ownership program for low- income county residents. The county provided a small grant to cover the program's administrative costs for the first year and then uses its HOME and SHIP program to provide substantial subsidies to first time low income home buyers. The subsidy level can be as high as $12,000 on a home costing $60,000 thereby reducing the first mortgage loan to $48,000. CEII's home ownership program director conducts classes on home ownership at least twice a month. These classes are aimed not only at providing information on home ownership and CEII's programs in general, but also to pre-qualify buyers to buy its new and rehabilitated units. At the present time, CEII has completed two new construction units which are both three bedroom/two bath units with a brick exterior. They sell for under $60,000 and with the county subsidy programs, the price is reduced to $48,000 or less. CEII has also completed five rehabs—most of which were HUD foreclosure acquisitions. HUD provides non-profit buyers who will re-sell to low-income families with discounts off the purchase price of up to 30%. This makes the units quite affordable for lower income families.

All required rehab work is completed and CEII then seeks to match these units with participants in its home ownership classes who have been pre-qualified by participating banks. CEII has also acquired vacant sites on which it will build up to twenty new homes for sale to low income families.

Financing for the Home Ownership Program is provided by the Calvert Foundation ($200,000), the Florida Community Loan Fund ($50,000), and Escambia County ($200,000). The Calvert and FCLF funding make up a working capital pool which is used for site acquisition and construction/rehab financing.

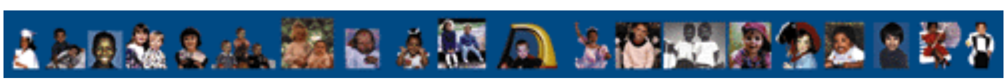
Other CEII Programs

The Jones Building is a Civil War vintage Victorian home that was acquired by CEII and restored to serve as its office building. It is listed on the National Register of Historic Places and provides CEII with community identity in the historic Belmont DeVilliers district. The property is valued at $175,000 and was acquired and restored with federal funding under the now-terminated Title VII CDC program administered by the Community Services Administration (formerly the Office of Economic Opportunity—OEO).

Neighborhood Incentive Program provides small matching grants to Neighborhood Councils to complete community self-improvement projects such as park development, purchase and installation of playground equipment, home repairs, youth education classes and a variety of other activities. CEII generates funding from donations from financial institutions and businesses in the Pensacola area.

Additionally, CEII contributes a portion of net earnings to ensure that adequate ongoing grant capital is available to meet the demand for these matching grants. Grants do not exceed $2,500 each and, since 1982, CEII has provided a total in NIP grants of $92,500. These small grants have made possible the completion of community improvement projects valued at $325,500.

For additional information contact CEII at 302 North Barcelona Street, Pensacola, Florida 32501. Telephone 904/444-2234; Fax 904/444-2264.



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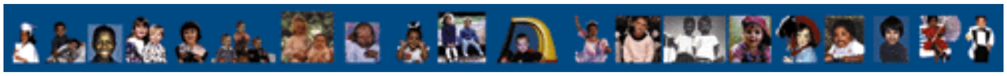


Seven Principles for Reducing Delinquencies

by David Boehlke

David Boehlke is the former executive director of the nonprofit neighborhood revitalization group Neighborhoods Inc. in Battle Creek, Michigan. In this article, he discusses seven principles to help ensure mortgage loan performance. This article was excerpted with permission from Banking and Community Perspectives, *a publication of the Federal Reserve Bank of Dallas.*

For many lenders, the fact is that delinquency rates in special lending programs are consistently higher than for conventional loans. Yet good performance on affordable mortgage products is vital to the long-term success of these programs.

National studies have shown that very small down payments, coupled with limited monthly reserves and past credit problems, can lead to higher delinquency levels on home mortgages.

The central issue isn't the trend toward higher delinquency. The focus should be on reducing this rate, because we must continue to serve this home ownership market. As Americans, we honor families who struggle to buy and improve their homes. We recognize the social and economic costs of declining home ownership. As a nation, we have seen too many neighborhoods fail as caring homeowners left, replaced by owners without the resources, skills, or desire to improve or maintain properties.

Too often the failure of a loan is discussed in terms of the impact on the borrower, the lender or the lending product. The failure of a loan also profoundly affects a neighborhood. Neighboring property owners might not be aware of one or two foreclosures, but if a pattern of delinquency and foreclosure becomes common, owners recognize that something isn't working. As a result, they start omitting improvements or delaying maintenance. All too quickly the pattern of disinvestment is confirmed.

Finding some answers

Fortunately, there are answers. One possible answer comes from Battle Creek, Michigan, a small industrial city recovering after years of decline. City leaders, local lenders and residents are restoring older neighborhoods through a complex series of innovative strategies that rely heavily on special lending programs.

The principal strategy emphasizes lending for home purchase and for home repair. In less than five years, Neighborhoods Inc., a nonprofit organization, has made more than 700 loans that have helped create more than $10 million in direct investment. These loans have significantly increased the percentage of home ownership, while creating higher standards for home maintenance.

With lending at its core, good loan performance is critical. Local leaders decided to build good performance into the design and delivery of loan products. My staff and I worked on this goal. To accomplish this, we committed ourselves to flexible but sound underwriting and to seven principles for reducing delinquency:

1 **Maximize the buyer's responsibility.** It isn't beneficial to hold a buyer's hand through every aspect of the purchase. Each borrower needs to work hard to buy if ownership is to be valued. Neighborhoods Inc. expects borrowers to resolve their own credit problems, to track down missing records, and to establish and follow a good day-to-day budget. Neighborhoods Inc. also tries to include some modest sweat equity, so home buyers develop a stronger sense of personal involvement.

Neighborhoods Inc. reaps a remarkable return on its investment by lending a few hundred dollars for the home buyer to landscape the front yard. This results in a more involved buyer, a more attractive home, an improved neighborhood, and we believe, a better loan.

2 **Prepare customers to make sound choices.** If counseling starts after the signing of a purchase contract, we have lost the best opportunity to help buyers. Buyers need to think through whether homeownership is right for them, what features the house should have now and for resale later, and what role the neighborhood plays in the purchase decision. Because lower income buyers don't have as many choices, helping them make a well-considered one is even more important.

Higher priced houses usually benefit from more active real estate agent involvement in the education process. We need to build the same training investment into the purchase of more affordable properties. A well thought out decision will produce a more committed borrower.

3 **Remind borrowers they are buying a house and a neighborhood.** Encourage informed buyers to study the dynamics of the local real estate market. Borrowers need to analyze trends in the neighborhoods. A home purchase isn't done just to acquire good housing; it is a major investment and should show equity growth. One of the fast tracks into the American middle class is a sound home investment. An attractive house in a neighborhood of declining value usually ends up on an economic sidetrack. The resulting frustration can undermine good payment behavior.

4 **Promote the goal of being "house proud."** Being proud of one's home is a powerful impetus to action. Affordable housing programs that only bring houses to a code-compliant condition may undermine a sense of pride in ownership. We've never met the buyer who proudly points to a house as meeting minimum standards. Home buyers need to feel their homes are special: an oversized kitchen, a gracious porch, or even just an outstanding paint job. If borrowers face some tough payment decisions, pride in the home is a compelling force to assure we get paid.

5 **Provide counseling about the decision to buy, not just about the process of buying.** Deciding about buying a home and committing to pay the mortgage on time should be the focus for counseling. The mechanics and jargon of buying—title searches, right of recision, the distinction between a note and a mortgage—are important only if the fundamental decision to borrow is a sound one.

Too often a loan is approved contingent on reading a home-buying guide or attending a class. Yet much of what is learned will soon be forgotten. The important lesson: when borrowers know why they are buying, they will know why it is important to pay.

6 **Structure financing as close to conventional as possible.** Even when the nonprofit Neighborhoods Inc. was involved in financing, we made every effort to place part of the financing with a conventional lender. Because most special programs are for people with a deficiency (too little down payment, insufficient earnings, shaky credit, etc.) these lending programs might imply a second-class status. Psychologically, this signals that the customer qualifies only because of failing. We need to mitigate this by showing that a conventional lender is enthusiastic about taking on part of the loan.

Having a nonprofit agency approve your loan is one thing; having a bank approve it is quite another. Banks serve mainstream Americans who don't need a special program. Reinforcing a standard bank relationship will strengthen the borrowing and lead to a long-term customer who pays.

7 **Continue a positive relationship after closing.** In most conventional loans, lenders pay close attention to borrowers at purchase or at delinquency. This is reasonable. However, in a truly comprehensive affordable lending program, the borrower is critical as an ongoing element in the neighborhood. Committed, enthusiastic home buyers encourage others to buy a home and reinforce current homeowners who are considering property improvements.

A borrower committed to the neighborhood is more likely to be committed to loan repayment. Therefore, a good counseling program keeps an ongoing relationship with the borrower and encourages involvement in the community. There is a positive relationship with the counselor if payments become a problem.

Shared Expectations

Do these principles pay off? I believe they do. Of course, good underwriting is critical to a good loan, but delinquency control also must be built into every aspect of the purchase and mortgage process.

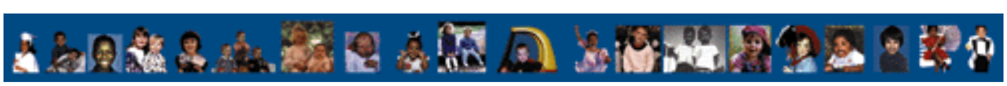
Is Neighborhoods Inc. pleased with the results? No. At any given time, troubled loans account for 2 percent to 3 percent of the group's portfolio. This is unacceptably high for a conventional lender. For a nonprofit organization lending to buyers who don't qualify for conventional lending, Neighborhoods Inc. expected higher percentages.

However, expecting higher delinquency and accepting poor loan performance are not the same thing. Neighborhoods Inc. continues to work hard to strengthen performance, not just to guard its portfolio or its borrowers, but to protect neighborhoods.

How can this experience apply to lenders in the [other] Federal Reserve District? In today's highly competitive business environment, most lenders can't reasonably attempt the sorts of initiatives used every day by Neighborhoods Inc. in Battle Creek. Fortunately, most lenders have a relationship with a similar nonprofit already. What is absent isn't the opportunity; what is usually missing is the expectation that nonprofit groups set high performance standards and meet those standards.

It is far too easy for both nonprofit groups and conventional lenders to accept poorer performance from special lending programs. The challenge is to set higher goals and then to structure the programs and resources to attain the goals.

The result will be more than good portfolio performance and more than just stable home ownership. The result also will be renewed strength for our older neighborhoods.



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Governor Lindsey Will Be Missed

On February 5, 1997, Lawrence B. Lindsey announced his resignation from the Board of Governors of the Federal Reserve System. Governor Lindsey joined the American Enterprise Institute as a resident scholar and will hold the Arthur F. Burns Chair in Economics. He will also serve as Managing Director of Economic Strategies, an economic advisory service based in New York City.

Governor Lindsey served on the Board of Governors for over five years, acting as Chairman of the Board's Consumer and Community Affairs Committee. A strong advocate of community development lending and investment activities, he also served as Chairman of the Board of the Neighborhood Reinvestment Corporation.

Active in the Federal Reserve's Sixth District, Governor Lindsey generously devoted his time to touring redevelopment activities in many communities, most notably New Orleans and Atlanta, and he was a featured speaker at numerous conferences and seminars.

Governor Lindsey received many honors and awards over the years, and he has been widely quoted for his insight into monetary policy, tax policy, and community development.

His contributions to community development activities have been significant and we will miss his presence.

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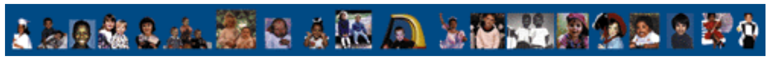

CALENDAR

Information provided on upcoming events of other organizations should be viewed as strictly informational and not as an endorsement of their activities.

APRIL

Apr. 24-25*Dallas, TX: National Association of Affordable Housing Lenders' Southwest Regional Conference. Sponsors: Federal Home Loan Bank of Dallas, Federal Reserve Bank of Dallas, Office of the Comptroller of the Currency, Bank One, Fannie Mae, Guaranty Federal Bank, Nationsbank, Texas Commerce Bank, The Enterprise Foundation and Wells Fargo Bank.Contact: (202) 861-5770

Apr. 24*Washington, DC: What's Hot in Housing Tax Credits. Sponsor: The Institute for Professional and Executive Development, Inc. Contact: (202) 331-9230

Apr. 23-25 Atlanta, GA: Economic Development Administration Atlanta Regional Meeting. Sponsor: National Association of Development Organizations Research Foundation. Contact: (404) 730-3002

April 26-30 San Francisco, CA: National Environmental Training Association Annual Conference and Workshops. Sponsor: National Association of Development Organizations Research Foundation. Contact: (602) 956-6099

MAY

May 8-9 St. Louis, MO: NADO Research Foundation: Economic Development Finance Service. Sponsor: National Association of Development Organizations Research Foundation. Contact: (202) 624-7806

May 12-13 Baltimore, MD: Business Retention and Expansion. Sponsor: The National Council for Urban Economic Development. Contact: (202) 223-4735

May 15-16*Washington, DC: The Next Step for the LIHPRHA Inventory. Sponsor: The Institute for Professional and Executive Development, Inc. Contact: (202) 331-9230

May 19-20 Arlington, VA: CRA Workshop. Sponsor: Consumer Bankers Association. Contact: (703) 276-1750

May 28-30 San Antonio, TX: Economic Development Administration Austin Regional Meeting. Sponsor: National Association of Development Organizations Research Foundation. Contact: (512) 916-5595

JUNE

June 1-4*Las Vegas, NV: Government Finance Officers Association. Sponsor: National Association of Development Organizations Research Foundation. Contact: (312) 977-9700

June 6-8 Durham, NC: National Academy of Public Administration. Sponsor: National Association of Development Organizations Research Foundation. Contact: (202) 347-3190

June 7-10 Charlotte, NC: National Association of Regional Councils. Sponsor: National Association of Development Organizations Research Foundation. Contact: (202) 457-0710

June 8-11 Chicago, IL: ACB/ABA National Real Estate Lending Conference. Sponsor: American Bankers Association. Contact: (800) 338-0626

June 16-17 Charlotte, NC: American Short Line Railroad Association: Shortline Rail and Economic Development. Sponsor: National Association of Development Organizations Research Foundation. Contact: (202) 628-4500.

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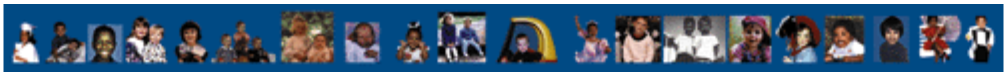

OUR MASTHEAD

Our masthead painting represents a break from our traditional landscapes within the District to matters a little closer to home. Featured in our masthead and inside the headers are the faces of the types of people that benefit from community development efforts.