Partners in community and economic development

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Complex Issues Surround Building and Maintaining Affordable Housing

It's never easy to decide what meaningful and timely topics should be included in a newsletter. Our community development industry is so full of interesting news and events that frankly, it's almost overwhelming. And everything is moving so fast that it's hard to keep up.

This issue is mindful of your needs for current events *and* background information. For example, Mike Milner's article on the "mark-to-market" program is a particularly insightful view on HUD-sponsored Section 8 developments. Congress passed the Multifamily Assisted Housing Reform and Affordability Act of 1997 to address the very large amount of HUD subsidies required for multifamily housing. The change has resulted in some affordable multifamily properties "opting-out" of the rental assistance program.

Meeting the need for affordable housing is a constant challenge. It's hard enough to develop the units, and now with some low-income housing tax credits expiring, combined with neighborhood gentrification, mark-to-market and other factors, the number of affordable units is rapidly declining. And there are no quick fixes, or easy answers.

Another article we're featuring was prepared by guest authors Kathy Kenny and John Trauth, who present one approach to preserving affordable housing units. They explain the issues and concepts that led to the development of a new national nonprofit, the National Housing Development Corporation. This nonprofit is chartered to serve as an intermediary for local nonprofits who need assistance in buying and preserving our affordable housing stock.

This *Partners* issue features some news worth celebrating. Keenan Conigland describes a new Fannie Mae initiative that provides substantial support to Citizens Trust Bank in Atlanta, a minority-owned financial institution.

Finally, we are excited about a very fine public/private partnership formed in Lafayette, Louisiana, to provide affordable single family housing in a new development called Bayberry Point. Every now and then we uncover a program that is run by a variety of committed and determined professionals whose intent is noble and whose approach is sound. Lafayette is a prime example of this, and we are pleased to present it in this issue. We hope you find it as interesting as we did.

This Partners features both single and multifamily affordable housing. While we normally try to balance the newsletter with information covering housing, business, and community and economic development programs, sometimes there is just too much news to cover in one issue. We will certainly try to address more issues in the next newsletter. In the meantime, please visit our website,
www.frbatlanta.org
for more information on selected topics, including a calendar of events that might interest you.

-Editor

In This Issue

New Homeowners in the Heart of French Louisiana

By Wayne Smith

In Lafayette, Louisiana, the key elements for successful affordable housing programs came together as a result of a shared vision and a willingness to work together in a collaborative way. At the same time, all parties never lost sight of the need for decisions to also make solid business sense. When parties are willing to work together under this framework and reach agreement, the benefits in community development can be positive for everyone involved in the process. In Community Affairs, we take great pleasure in our work from seeing families realize their homeownership dream. But what's nearly as satisfying is seeing exceptional examples of cooperative efforts that help make those dreams come true. One such example is in Lafayette, Louisiana. We are pleased to present this story below to capture some of the better elements of this public/private partnership.

Community Development is all about expanding the opportunity for homeownership to low- and moderate-income individuals and families. Of course, the task is not always easy when dealing with multiple parties. In Lafayette, Louisiana, a number of elements had to come together.

First, you had to have a good developer who could build affordable housing profitably. Next, you had to have a willing financial institution to offer an affordable mortgage product. Then, you had to have a capable city government to support the proposal and facilitate gap financing. And of course, you had to have eligible and educated buyers along with dedicated realtors who would work to bring the parties together.

In Lafayette, the results shine.

Developer Linda Supple worked to design and build affordable housing that is as attractive as it is well built. The brick homes featured on the cover and in this article have three bedrooms, two baths, custom kitchen cabinets, central heat and air, patio, and quality finishes throughout. They sell in the upper-$70,000 price range.

The pivotal factor for a developer to be able to build such housing profitably is to keep costs down. In this case, the developer acquired the Bayberry Point subdivision from a bank that foreclosed on the property and had carried it as a non-earning asset in "other real estate." With the infrastructure already in place -- such as

paved streets, curbing, sewers, and underground utilities -- great savings could be realized.

Of course, as most developers know, there is more to it than the bricks and mortar. Working closely with the homebuyer is critical. "I spend so much time with the client to build their confidence and earn their trust," said Ms. Supple. "I'll even help make the appointment for them to meet the lender. The customer is always more comfortable if they know the lender is expecting to see them."

Like other financial institutions in Lafayette, Whitney National Bank is actively involved in community lending. Pattie Charpentier, Community Lending and Outreach Specialist, worked aggressively to promote mortgage products that would serve the needs of low- and moderate-income borrowers when coupled with gap financing provided through the Lafayette Consolidated Government.

The Whitney products include FHA and VA loans, and an in-house market interest rate product with no origination fees, no points, no mortgage insurance, a 3% downpayment, and debt ratios of 33% for the housing payment, and 42% for the total debt payment.

"This partnership works," says Ms. Charpentier, "because so many people are not out for individual financial gain. And with this developer, we know the client comes first."

The Lafayette Consolidated Government has a substantial commitment to the partnership as well. Joseph Bourg, Governmental and Business Relations Manager, says "getting people into homes is a sound economic policy."

Community Development Practitioners *- standing from left to right are Anthony Branham, Business Development Officer, Lafayette Consolidated Government; Barbara Kinchen, Realtor, Belle Terre Properties; Shawn Moore, Business Development Specialist, and Joe Bourg, Government and Business Relations Manager, both with the Lafayette Consolidated Government; and Faye Nunn, Counselor with Neighborhood Services. Seated is Sylvia Mouton, Broker, Belle Terre Properties; Linda Supple, Developer, Bayberry Point Subdivision; and Pattie Charpentier, Community Lending and Outreach Specialist, Whitney National Bank.*

The local government has a substantial number of housing programs and services to offer. Some of the programs include rehabilitation grants, demolition grants, home maintenance courses, homebuyer education training programs, emergency shelter grants, and soft second mortgages for first time homebuyers to bridge the gap for many homebuyers.

The Lafayette Consolidated Government and the Lafayette Public Trust Financing Authority provide the gap financing for applicants whose income does not exceed 115% of the area median income. The program provides a 5% interest loan of up to $5,000 for downpayment or closing costs assistance.

A 15-year loan, the second mortgage will "buy down" the interest rate for the homebuyer. And while the $39.54 monthly payment can be an administrative burden as the volume of loans grow, the Consolidated Government recognizes the benefit of homeownership far outweigh the administrative costs.

As with all new products, "it's like sculpting a program," says Mr. Bourg. "You try to improve upon it every year."

Other restrictions apply, and for good reasons. For example, the first mortgage interest rate can not exceed 9%.

As local Realtor Barbara Kinchen with Belle Terre Properties explains, "you should not provide false hope. High interest rates and high debt levels are setting people up for ultimate failure of losing a home."

In addition, applicants must meet the credit standards of local lenders. "Sometimes it's necessary to focus on customer's credit repair issues first," said Ms. Kinchen.

And applicants must have completed a First Time Home Buyer training program within the last 12 months. The training is critical. "We can definitely tell the difference," says local Realtor and sales manager, Sylvia Mouton, of Belle Terre Properties. The client knows what they want and they ask specific questions."

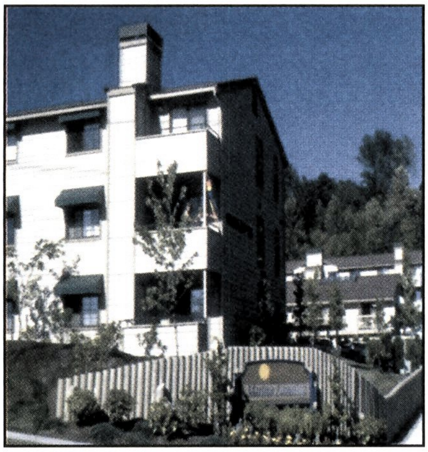
Best of all, according to Ms. Supple, "when the client comes to closing, they know what to expect."

The development of affordable housing generally and Bayberry Point in particular have made a tremendous difference in the community. The development created construction jobs and stabilized the neighborhood.

The lender receives profitable returns on its loans, and in the case of Whitney National Bank, past-due rates are more favorable than many other mortgage pools.

The Lafayette Consolidated Government benefits from real estate taxes and the indirect economic benefits from the additional jobs that have been created. And most important, more families have places to call home.

For more information, please call the housing department of the Lafayette Consolidated Government at (337) 291-8404, or Wayne Smith at the Federal Reserve Bank, (404) 589-7265.



Mark-to-Market Initiatives Impact Affordable Housing

By Michael Milner

Are we on the verge of a multifamily affordable housing crisis? Over the last three years, a growing trend of private multifamily rental property owners have decided not to continue their relationship with HUD and its Section 8 program. Even with new affordable housing being built, this still translates into a net loss of affordable units available to low-income renters. The shifting paradigm is largely attributed to changes in the program.

In the 1970s, HUD instituted a program to encourage the building of additional affordable rental housing by private owners. HUD offered high rental subsidies and entered into 20-year contracts with private owners. These agreements allowed automatic annual rent adjustments. Twenty years later, HUD was making rental subsidy payments to many of these property owners substantially above the level of market rents, creating quite a controversy on Capitol Hill. Significant Congressional debate ensued to determine a long-term solution to the problem of the high rents, realizing that simply cutting rents down to market levels could cause numerous foreclosures and defaults on FHA mortgages.

Finally in 1997, after much debate and some experimentation, Congress passed The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). MAHRA was designed to reduce the cost of federal housing assistance, improve HUD's administration of such assistance, and ensure the continued affordability of units in certain multifamily housing developments.

Specific Changes

Mark-to-Market Program (M2M)

MAHRA authorized a new M2M Program designed to preserve low-income rental housing affordability while reducing the long-term costs of federal rental assistance, including project-based assistance from HUD. This will be accomplished through the following objectives:

◆ Reducing project rents to no more than comparable market rents (with some exceptions),

◆ Restructuring the HUD-insured or HUD-held financing so that the monthly payments on the first mortgage can be paid from the reduced rental levels,

◆ Performing any needed rehabilitation of the project,

◆ Making sure there is competent management of the project.

The type properties affected by the Act are HUD-insured or HUD-held mortgages and contracts for project-based rental assistance from HUD, primarily through the Section 8 program, for which the average rents for assisted units exceed the rent of comparable properties.

When a Section 8 contract renewal request is made, the owners of the property can either renew the contract without restructuring the mortgage debt, renew the contract and restructure the mortgage, or "opt out" of the Section 8 program. The first option can be done with either below-market or above-market projects. Because the contract restructuring process may take sometime, contracts are renewed at present rent levels temporarily while the mortgage is being restructured.

Office of Multifamily Housing Assistance Restructuring (OMHAR)

The Act also established OMHAR within HUD to develop and manage the program. The program is running through a group of decentralized entities called Participating Administrative Entities (PAEs) that are appointed by OMHAR. PAEs are mostly Housing Finance Authorities, but there are non-profits and in some cases, for profit organizations. These PAEs negotiate with the owners of individual projects and develop what's called "Restructuring Plans."

Restructuring is being done on properties with expiring contracts where the subsidy exceeds the true market value and the property cannot cash flow its current debt service and operating expenses when the rent is reduced to the market level. For those with HUD-insured loans, restructuring will usually reduce the amount of the first mortgage to levels serviceable with Section 8 market rents, placing the non-serviceable portion of the prior loan into a deferred second mortgage. Where debt reduction fails to yield sufficient savings to operate at market rents, budget-based Section 8 rents, called "exceptional rents," can be used to cover operating expenses.

Impact of the Changes

Nationwide, over 800,000 housing units in approximately 8,500 multifamily projects have been financed with FHA-insured mortgages and supported by project-based Section 8 housing assistance payment contracts. In response to the HUD changes, hundreds of property owners decided to discontinue their relationship with the HUD programs. Many of the 20-year expiring contract holders were choosing to "opt out" of the program. To add to this dilemma, a large number of property owners began paying off their mortgages well in advance of the maturity dates, which also gave them an opportunity to be released from their Section 8 responsibilities. Through the end of 1998, 929 properties totaling 97,568 units either "opted out" or prepaid their HUD loans.

It is reasonable to assume that the properties exiting the program first are those that had been receiving rent subsidies less than comparable rents in the market. Communities that have been affected the most seem to be those with significant population growth and increasing housing costs where the subsidies are not covering actual costs to the property owners.

"Opt out" and prepayment data give a better idea of the severity of the problem. As reflected on page 9, the Federal Reserve's Sixth District states lost 30 properties totaling 4,030 units because of "Opt outs." Prepayment data, however, reveal a more significant concern.

With prepayments, the high growth states of Florida and Georgia were hit the hardest, losing 4,370 units. The low growth states of Alabama and Mississippi were affected the least. According to Eric Strong, Jefferson County Housing Authority CEO (the HUD-appointed PAE for Alabama), "many Alabama rental markets don't offer the necessary incentives for an owner to "opt out" of the Section 8 program."

Additional Section 8 program properties will be lost through a disqualification process. According to HUD, more than 80% of HUD program properties are in good condition; however, some need substantial rehabilitation. The property may be disqualified from the benefits of the M2M program when the property is in poor condition or when the property owner has committed substantive program violations. HUD or the PAEs may find the rehab costs too expensive. However, HUD and the PAE have a lot of discretion on disqualifications and don't anticipate the number of disqualifications to have a significant impact on the available units.

How much of a problem is the M2M program actually causing, now that many Section 8 recipients have vouchers and certificates allowing them to go to the place of their choice? Many experts anticipate the bulk of the remaining Section 8 housing will remain in service and will comply with the new rules because many of these property owners have no other choice. According to Eric Strong, "one of the primary goals of the PAE's work is to make every effort to preserve existing affordable housing units while striving to reduce the financial burden to the Treasury."

However, the issues are still significant, particularly for urban dwellers in high-growth areas. The loss of 98,000 units of Section 8 housing as of 1998 has put a significant burden on the existing conventional rental housing stock in this country. Also, additional financial pressures have been placed on the low-income housing community, with voucher recipients complaining of having to pay premium amounts above their voucher allocations to live in decent housing.

Housing Secretary Report

Housing Secretary Andrew Cuomo reported to Congress in March 2000 that a record number of low-income families need rental assistance but fail to get it. According to a recent HUD study, at least 5.4 million very-low-income households spend over half their earnings on rent without assistance or lived in substandard conditions as of 1997, the most recent data available. The higher number also represented an increase in percentage of total U.S. households compared with 1991: 5.4% versus 5.1%.

These low-income households make up one sixth of total renters and include 12.3 million individuals considered as poor to be one paycheck away from homelessness. This is despite the fact that the households are more likely than ever to include at least one full-time worker. Seventy percent of all households that receive federal housing assistance have incomes below 30% of area median income. The rent burden grew three times faster for working families than for any other category, HUD found. Minorities were another hard-hit group. Increases were especially steep for Hispanic households and for minority families with young children.

Besides the factor of the net loss of affordable housing units discussed above, another factor was the lack of federal spending to increase the number of Section 8 vouchers. Congress created no net increase in Section 8 vouchers between fiscal years 1995 and 1998. Cuomo said, "There was a four-year hiatus when we went out of the housing business. We're now paying for that hiatus."

Conclusion

In the 1970s, HUD brought in private ownership to increase the multifamily housing stock for the low-income community. Making the business of governmentally subsidized rental housing profitable for private owners was the key to the success of the program. In order to continue the availability of affordable private rental housing, HUD must continue to make it profitable for the property owners involved.

In 1999, there was a noticeable decline in property "opt outs" and prepayments. It is believed that the initial "opt outs" and pre-payments in 1998 were the ones most convertible to above-market rents. But many predict that there will be a second wave of "opt outs" in 2000 after the end of several automatic one-year extensions that were initiated at their existing rent levels. Many are predicting that a number of these units will be up for sale in 2000 and 2001 because they no longer will be profitable for existing private ownership.

A number of non-profits are attempting to prepare themselves for acquisition opportunities, and the increased involvement of non-profit housing organizations will be a welcomed addition to the ownership of Section 8 rental properties. Additional hope exists in the possible expansion of the government's Section 8 voucher program. In order to address affordable housing problems appropriately, a long-term, detailed regional strategy will have to take into consideration the existing housing stock and the need for building new housing. This will require the involvement of government, for-profit, and non-profit concerns.

Economic Impacts of Tobacco Industry

The Federal Reserve Bank of Richmond recently produced a study on the economic impacts of the tobacco industry and its 1999 national litigation settlement. The study, prepared by Dr. Dixie Watts Reaves and published as one of FRB-Richmond's Community Development Marketwise Reports, presents a balanced approach in considering the issue.

While the health risks of tobacco products are well established, and limitations are clearly needed, the implications for low-income rural counties in tobacco-producing regions are sometimes overlooked. Right or wrong, these very low-income counties in our Districts have relied on this government-supported industry for a long time, and change will not come easy for them.

The report cites many interesting statistics. For example, in 1998 alone, U.S. consumers spent $59 billion on tobacco products, generating income and employment in the wholesale and retail sectors, manufacturing, storage, sales and distribution, and tobacco farming. Another example of the report's statistical data is the number of U.S. jobs that are directly related to tobacco production -- over 500,000. Clearly, these jobs amount to significant economic impact to not only the workers themselves, but also the economy that feeds off of these jobs.

The report explains the government's tobacco program, the tobacco settlement, and the trust fund to assist growers in offseting their potential loss in revenues. It also discusses the role of tobacco in local economies, the impacts of change, the potential economic effects if tobacco production decreases, strategies for addressing change, and suggested alternatives to tobacco farming.

One thing for certain, there are no easy answers. If you would like to see the complete study, please refer to the internet site www.rich.frb.org/comaffairs/tobaccod.PDF or contact the Federal Reserve Bank of Richmond's Community Affairs Office.

National Housing Development Corporation

A New Non-Profit Focused on Preserving Affordable Housing

By Kathy Kenny and John Trauth

In spite of the robust American economy, the need for affordable housing continues to grow. Today, this nation provides affordable housing for only one-fourth of those who need it. As a country, we are not building enough affordable housing to keep up with huge demand. Many experts have recognized this problem, including the National Housing Conference, which is calling for the creation of a bold new affordable housing production program. At the same time, the stock of existing affordable rental housing is diminishing through neglect, deterioration and, most importantly, the pending expiration of federal subsidies.

Beginning in the 1970s, the federal government entered into contracts with private owners to create affordable housing projects in return for a long term (25-30 year) commitment from the government to provide monthly rent subsidies for the tenants. The "Section 8" program, administered by the Department of Housing and Urban Development is the primary vehicle for these subsidy dollars. The US Department of Agriculture's "Section 515" program has also built affordable rental housing in rural areas. While these subsidies are not expiring, some owners are interested in selling their properties to local nonprofits.

Now, throughout the nation, a large percentage of these government rent subsidy contracts are expiring without the expectation of renewal. Over the next three years, the largest transfer of affordable real estate assets in history will take place, exposing upwards of 800,000 affordable apartments, now regulated and subsidized by HUD, to market-rate conversion. Unless a large-scale intervention takes place, these precious resources will be lost, as owners divest and profit-motivated investors move in.

The National Housing Development Corporation (NHDC) has been created to respond to this need. It is the first national intermediary of this type to emerge from the West Coast, growing out of an award-winning housing preservation program operated by the non-profit Southern California Housing Development Corporation (SoCal Housing).

NHDC's mission is to improve the quality of life for lower income families through acquisition and preservation of our nation's affordable housing stock. It will partner with other not-for profit preservation efforts. It will compete aggressively with the private sector to purchase large portfolios of these properties, restructure them financially, and sell them at cost to local non-profits. Under nonprofit ownership, affordability can be maintained in perpetuity. NHDC's goal is to help preserve a significant portion of the nation's "at risk" properties, with an initial target of acquiring 60,000 units in three years.

Congress has recognized the need and endorsed the NHDC model. Two million dollars has been earmarked in the 1999-2000 budget for NHDC's initial seed capital. In addition, a national foundation has approved a seed grant for the first two years of operation.

NHDC's United National Preservation Trust

NHDC's program, also called the United National Preservation Trust, will negotiate directly with portfolio owners for properties anywhere in the country. It is designed as a large-scale acquisition/warehouse facility which will purchase larger portfolios of "at risk" affordable housing properties, concentrating on those which are beyond the reach of local non-profits, either for financial or geographic reasons. NHDC will then reposition and stabilize the properties and finally disaggregage and sell off individual properties at cost to qualified local non-profit organizations.

NHDC's holding period (estimated between 12 to 36 months) will enable the local non-profits to assemble the necessary resources (tax credits, HOME funds, and local subsidies) to purchase the properties and prepare to assume property management functions. NHDC will retain a limited asset management oversight role, retaining the ability to correct any future problems that might arise.

NHDC has developed its program based on the concept of "harmonious differentiation" through which NHDC will work with and complement housing, community development and preservation efforts of other national intermediaries. Initial relationships are being negotiated with the National Council of La Raza and the Congress of National Black Churches. In addition, properties acquired by NHDC will be available for purchase by qualified affiliates of the Neighborhood Reinvestment Corporation, Local Initiatives Support Corporation, the Enterprise Foundation, National Association of Housing Partnerships, National Affordable Housing Preservation Associates and others. (See page 10 for further information on complementary initiatives operated by these organizations.)

NHDC will also work closely with the National Council of State Housing Agencies (NCSHA) and its members at the state level, who will assist in identifying potential at-risk properties and may also provide property financing.

NHDC's Target Markets

In addition to the large number of existing low-income rental housing units which are immediately "at risk" of loss as a result of market rate conversion, other preservation targets for NHDC will include older assisted subsidy-dependent properties, conventional affordable apartments owned by REITS, Low-Income Housing Tax Credit properties reaching lock-in expiration, and very large-scale neighborhood revitalization projects that are beyond the reach of local non-profit capacity.

NHDC's Acquisition and Financing Plan

NHDC will focus on properties which can be underwritten, purchased and preserved under a "renewed affordability" paradigm in which a combination of a reasonable acquisition price and value added through financial and operational restructuring, below-market financing, tax credits, local subsidies and non-profit ownership can achieve permanent affordability independent of future federal subsidies.

Now that the initial seed capital is in place, NHDC staff is actively working to identify and purchase its first at-risk portfolios. Timing is of the essence since the majority of the at-risk Section 8 projects will face subsidy expiration in the next three years. If these properties are lost to conventional buyers and converted to market rate housing, the cost of replacing this inventory will be prohibitive.

Opportunities exist for banks and other financial institutions to provide seed capital to support NHDC's initial activities in their market areas, as well as acquisition and permanent financing for NHDC properties, eventually assumable by the ultimate owner/manager, the local non-profits.

Once up and running, NHDC will earn income from transaction fees, special preservation funds (Intermediary Technical Assistance Grants), cash flows from acquired properties, transfer fees to local non-profits (based on a limited cost-reimbursement formula) and asset management fees. NHDC's projections indicate that it will achieve self-sufficiency in four years, based on an aggressive acquisition strategy.

To reach self-sufficiency, NHDC's financial projections show a need for $5 million in seed capital (of which $2 million has now been provided by Congress). NHDC is in the process of raising the remaining seed capital from financial institutions, foundations, corporations and future congressional appropriations.

A CRA Investment Opportunity

NHDC is developing an investment fund whereby participating financial institutions should receive CRA investment credit via acquisition (and subsequent disposition) of existing affordable housing at risk of market conversion.

Acquisitions will be structured via a risk-shared equity pool LLC in which NHDC will be the managing member and participating financial institutions will be the equity investors and members.

Investments are targeted for $5 million increments, although smaller investments will be considered. The investment will have a projected holding period of 3 years and a maximum of 6 years, with a projected return of 5-8%, plus return of capital. The fund will make every effort to target its acquisitions to match the investors' service areas, broadly defined as states and regions where investors do business. However for NHDC to have the flexibility to respond to areas of greatest need, 25% of the funds will be reserved for use in any location.

As soon as properties are repositioned, stabilized, and the qualified local nonprofit is in place, NHDC will sell or transfer the property to the qualified local nonprofit. At that time, the investors' equity capital will be repaid. As an alternative, and at each individual investor's discretion, equity capital returned can be recycled back as a new capital contribution to acquire future properties on the same basis. If there is no otherwise viable affordability-oriented transaction, as a last resort the property can be sold at market value.

NHDC Personnel

While NHDC is a new national intermediary, NHDC staff has a long and impressive history in affordable housing preservation. Jeff Burum, NHDC's executive director, was the founder and driving force behind Southern California Housing Development Corporation (SoCal Housing), a large and successful regional non-profit which focuses on preservation of affordable rental housing in Southern California. Under Burum's seven-year stewardship, SoCal Housing preserved over 3000 units of affordable housing with an asset value exceeding $130 million. Other key staff members from SoCal Housing are also involved with NHDC. Sebastian Sterpa, former chairman of the California Housing Finance Agency, will serve as the initial chairman of the Board of Directors. Other members of NHDC's Board are being recruited and include key national leaders in the non-profit, philanthropic, private and public sectors.

In addition, NHDC has assembled a team of outside experts to assist with acquisitions, organizational planning and development, and public finance. Team members include Rick Johnston, Managing Director, of Public Finance for US Bank/Piper Jaffray, the authors of this article, and David Smith, founder and President of Recapitalization Advisors, one of the nation's leading specialists in the HUD inventory.

The ultimate goal of NHDC's efforts is to help local communities attain greater control over one of their most precious assets—the housing stock that shelters lower income families and seniors. Without a doubt, preserving this housing stock is a huge undertaking, one that, in order to be successful, will require coordination, cooperation, considerable expertise and strong financial support. Management fees can also contribute to the sustainability of local non-profit operations, providing additional capital to address other community needs.

Through its working relationships with other preservation-oriented agencies and through its Board of Directors, NHDC is positioned to make a major difference in the preservation of our nation's affordable housing stock. NHDC's success will directly translate into success for the local non-profits who wish to play a role in the preservation of affordable housing in their communities.

For additional information on NHDC, contact National Housing Development Corporation, 8265 Aspen Street, Rancho Cucamonga, CA 91730; (909) 291-1400 or jburum@nhdc.org. Or visit NHDC's website at www.nhdc.org.

Properties Opting Out of The Section 8 Program

STATE	NUMBER OF PROPERTIES	NUMBER OF UNITS
Alabama	3	490
Florida	7	1,282
Georgia	4	367
Louisiana	5	876
Mississippi	4	360
Tennessee	7	655
TOTAL	30	4,030
Aggregate USA	349	37,898

Properties Prepaying Out of The Section 8 Program

STATE	NUMBER OF PROPERTIES	NUMBER OF UNITS
Alabama	0	0
Florida	21	2,565
Georgia	17	1,805
Louisiana	7	566
Mississippi	1	100
Tennessee	4	478
TOTAL	50	5,514
Aggregate USA	580	59,670

Information supplied by the National Housing Trust, as of 12-31-98.

Additional Affordable Housing Preservation Contacts

LISC's Community Development Trust, Inc.
The Community Development Trust (CDT) is a for-profit real estate investment trust (REIT) created in 1998 by the Local Initiatives Support Corporation (LISC), a national community development intermediary. CDT acquires long-term fixed-rate mortgages collateralized by affordable multifamily housing and other community development assets. CDT also invests equity in community development projects that meet CRA requirements. As a REIT, CDT can offer current owners of affordable housing a tax-deferred exchange that benefits property owners who have exhausted their tax benefits. Initial capital of $31,750,000 was raised from 18 institutional investors including banks, insurance companies, and one CDFI. For further information, contact Judd S. Levy, President and CEO, (212) 271-5099, jlevy@commdevtrust.com.

National Affordable Housing Preservation Associates
The National Affordable Housing Preservation Associates (NAHPA) is a national non-profit organized to promote the preservation of affordable multifamily housing in rural areas and small towns. NAHPA is currently completing acquisitions in Illinois and Vermont with a goal of acquiring 3000 units over the next three years. USDA Rural Housing Service has affirmed a financing model for preservation properties to attract the participation of private lenders. NAHPA is now looking to build an organization and to establish partnerships with local and regional non-profit organizations and housing authorities interested in acquiring and/or managing multifamily properties in rural areas. For further information contact Muriel Watkins, Executive Director, (202) 467-8544 or murielwatkins@hotmail.com.

National Association of Housing Partnerships' Housing Partnership Development Fund
The National Association of Housing Partnerships (NAHP) is comprised of 60 regional nonprofit housing organizations in 32 states. NAHP's new affiliate, the nonprofit Housing Partnership Development Fund, will provide a loan facility for use by NAHP members, primarily for purchase of portfolios of HUD-assisted properties. The Fund will offer technical assistance with the financing that is needed for predevelopment costs. The Fund has received CDFI designation, so that bank investors can receive CRA credit and cash awards. $1 million in investment has been raised to date toward a goal of $3 million. For further information contact Kathy Farrell, (617) 720-1999 extension 204, farrell@nahp.net.

Neighborhood Capital Corporation (NCC)
The Neighborhood Capital Corporation (NCC) was formed in January, 2000 by members of the Multi-Family Housing Initiative of Neighborhood Reinvestment Corporation (NRC). The NCC membership, comprised of the multifamily organizations in the NeighborWorks Network, owns and operates 15,000 units of multifamily housing. NCC's primary function will be aggregating capital for the timely acquisition of affordable multifamily housing for its member organizations. NCC members plan to increase their combined portfolio by 10,000 units by the end of 2003. NCC intends to work with other organizations, including National Housing Development Corporation (NHDC), National Housing Trust/ Enterprise Preservation Corporation (NHT/E) and National Association of Housing Partnerships (NAHP). The NCC board has commenced the executive search process. For further information, contact Bill Sullivan, Rocky Mountain Mutual Housing Association, Inc. 1550 Park Avenue, Denver, CO 80218, (303) 863-8651, ext. 211; sullivanb@rmmha.com.

NHT Enterprise Preservation Corporation
National Housing Trust is a nonprofit intermediary located in Washington D.C. The Trust was founded in 1986 and is dedicated to the preservation of existing multifamily affordable housing. In 1999, the Trust and the Enterprise Foundation launched the NHT Enterprise Preservation Corporation, which will purchase real estate from owners of multifamily housing, primarily targeting markets where there is insufficient local nonprofit capacity or interest to efficiently complete a transaction. This new nonprofit entity plans to acquire 5,000 apartments over the next five years. In general, NHT/Enterprise plans to focus its activities in the Mid Atlantic, South and Midwest. For further information contact Scott Kline, Vice President for Acquisitions, (202) 333-8931 or skline@nhtinc.org. Or visit NHT's website at www.nhtinc.org

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About the Authors

Kathy Kenny and John Trauth are organizational planning and development consultants, specializing in the startup of large-scale initiatives in affordable housing and community development. They are currently assisting the National Housing Development Corporation through its startup phase. John Trauth was also instrumental in the creation of BRIDGE Housing Corporation and Southern California Housing Development Corporation, two regional nonprofit housing developers. Kathy Kenny has also served as a planning consultant to the Council on Foundations, the League of California Community Foundations, the National Economic Development and Law Center, and the Federal Reserve Bank of San Francisco.

Fannie Mae and Citizens Trust Bank Join Forces to Expand Housing Opportunities

By Keenan Conigland

James E. Young, Citizens Trust Bank President

For most banks, construction of affordable housing in low- to moderate-income communities is a noble but challenging endeavor. Prospects for success increase dramatically, however, when you are able to join forces with the likes of the Federal National Mortgage Association – known more commonly as "Fannie Mae." In an effort to increase lending opportunities in traditionally under-served communities, Fannie Mae, the largest source of financing for home mortgages in the country, recently made a $1.5 million equity investment into Citizens Bancshares Corporation, the parent company of Citizens Trust Bank, Atlanta, Georgia (CTB).

With assets of $215 million at year-end 1999, CTB is the largest African-American controlled bank in the southeast and the fourth largest in the U.S. The bank was founded in 1921 by a group of black businessmen led by Herman E. Perry, who had made his fortune in the insurance business.

Fannie Mae's $1.5 million stock investment gave the agency a 9.9% ownership interest in return – an amount below the 10% threshold under the Change in Bank Control Act. The equity funds, which now represent Fannie Mae's largest Community Development Financial Institution (CDFI) investment in the southeast, will be used to promote greater development in the metropolitan Atlanta area served by CTB.

Chuck Lewis, chief operating officer and senior executive vice president of CTB, explains the bank's strategy. "Our vision is to make loans and then invest back into the community so that it will flourish. We can also be an advocate for these communities and businesses by becoming part of their neighborhood associations, and giving our time and talent." Lewis works closely with the South Dekalb Business Association, Old National Highway Merchants Association, and Cascade Business Association. In the same spirit of corporate citizenship, James E. Young, president and CEO of Citizens Bancshares Corporation and CTB, is active with the Atlanta/Dekalb Chamber, Sweet Auburn, and a host of other organizations.

Because of that kind of community vision and involvement, Fannie Mae felt comfortable in making its second CDFI investment in the institution in as little as three years. "They penetrate under-served communities much better than traditional banks," explains Archie Hill, director of Fannie Mae's Atlanta Partnership Office. "They have a targeted outreach that works."

In an effort to serve markets where residents have demonstrated income but lack convenient access to financial services, CTB has opened branches in the College Park, South Dekalb, and Cascade areas. "These are viable areas but they need access to capital. We know how to make loans safely and profitably in these communities. We're trained to do it," says Lewis.

CTB's overall strategy is fairly straightforward: it simply aspires to "grow" the community. "By planting financial seeds in the community, we can generate wealth and business opportunities," Lewis says. "We now give free financial plans and makeovers. As an approved SBA lender, we can do anything a full service bank can do, including internet banking."

Minorities constitute 99% of CTB's market. Of this segment, 64% are first-time homebuyers, and 28% are single women heads of households. "We invest time in getting to know our customers, " offers Paul Ramirez, who heads up CTB Mortgage Services (CTBMS). "With us, trust, believability, and face-to-face contact are what make the difference."

Citizens Bancshares Corporation merged with First Southern Bancshares in 1998. Based in metro Atlanta's south Dekalb county, First Southern was also an African-American financial institution founded by successful entrepreneurs. The assets of the Atlanta-based institution recently increased from $215 to $245 million when it acquired the assets of Atlanta-based, 75-year-old Mutual Federal Savings and Loan, following receivership.

National Community Development Training

This year's National Community Development Lending School (NCDLS) will be held at Washington University in St. Louis, Missouri, from July 16 – 20, 2000.

The NCDLS focuses on how to attract and underwrite community development business that is consistently profitable. The five-day curriculum is based on the key issues and current industry trends relevant to community development lending in today's business environment. The five core areas of study include: Single-family housing, Multi-family housing, Small business development, Commercial real estate, and Community facilities lending..

Training stresses the day-to-day mechanics of underwriting community development loans and ensuring their long-term profitability.

Attendees will be limited to the first 60 community development lenders who possess a minimum of one year and a maximum of five years of community development experience.

An advisory committee comprised of experts in their field has been developed to create the curriculum for this innovative school and serve as its faculty. These experts include: Mr. Tomas Fitzgibbon, president and CEO of Manufacturers Community Development Corporation in Chicago; Ms. Karen Kollian, mid-Atlantic district director of Neighborhood Reinvestment Corporation in Baltimore Mr. Jeff Nugent, senior vice president at the Development Training Institute in Baltimore; Mr. Preston Pinkett, senior vice president at PNC Bank in East Brunswick, New Jersey; Ms. Phyllis Rosenblum, senior vice president at HSBC Bank USA in New York; and Mr. Doug Woodruff, senior vice president, Bank of America in Charlotte.

For further information, please contact Fred Mendez at the Federal Reserve Bank of San Francisco at 415/974-2722.

Community and Economic Development Conference 2000: Seizing Opportunities in a Changing Financial Landscape

The Westin Michigan Avenue   Chicago, Illinois, October 30 - November 1, 2000

Sponsored by the American Bankers Association and the Federal Reserve Banks of Chicago and St. Louis, the conference will explore community and economic development with an emphasis on seizing financial opportunities and growing institutions and organizations.

For further information, please contact Barbara Sims-Shoulders at (312) 322-8232 or Barbara.E.Shoulders@chi.frb.org.

For other events that may be of interest to you, visit www.frbchi.org/cedric/cedric.html.

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