Profitwise

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GET CHECKING

Providing a Financial Foothold for Milwaukee's "Unbanked"

ALSO IN THIS ISSUE:

Indiana's Housing Finance Authority

Using Tax Increment Financing

Profitwise

Profitwise welcomes story ideas, suggestions, and letters from all bankers, community representatives and other subscribers in the Seventh Federal Reserve District. It is mailed at no charge to state member banks, bank holding companies and non-profit organizations throughout the Seventh Federal Reserve District. Other parties interested in neighborhood lending and community reinvestment may subscribe, free of charge, by writing to:

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the GET CHECKING program

THE FED'S COMMITMENT TO FINANCIAL LITERACY

Financial literacy is crucial to financial success and wealth accumulation for American households. The term "financial literacy" refers to the understanding and informed use of mainstream financial products and services such as bank accounts, credit cards, mortgages and insurance. Households that utilize check-cashing services, and pay bills in person or with money orders, pay significantly more for those products and services than they would at an ordinary bank. They also assume unnecessary risks, such as holding large sums of cash. These households are also at a distinct disadvantage when seeking to finance a major purchase, such as a home or tuition costs. The primary reason: they do not have an established relationship with an institution in a position to provide them those types of financing when the need arises.

The Federal Reserve Bank of Chicago is committed to the goal of improving financial literacy within communities in its district, and is working on numerous fronts to support and promote relationships between insured depository institutions and households with no banking relationship. Profitwise will frequently highlight programs and initiatives designed to improve financial literacy, such as the "Get Checking" program described in this issue.

With the advent of electronic banking, financial institutions are challenged to find new ways to serve members of their communities who do not have a banking relationship. In Milwaukee, Wisconsin, an innovative partnership called "Get Checking" has been established to bring these new customers into financial institutions and to provide counseling on how to successfully manage their accounts, once established.

For potential customers without an established financial institution account relationship, the Get Checking Program offers the opportunity to participate in a six-hour educational program to learn about account options and how to manage an account wisely once it is established. Participants learn "banking basics" from financial educators, financial institution representatives and from hands-on experience working with a checking account. Those who complete the classroom sessions and pass a competency test are awarded a Certificate of Completion which is recognized by participating financial institutions when program participants apply for an account.

Get Checking offers a fresh start for individuals who may have had a problem with an account in the past that was reported to the Chex System – a national tracking system banks use to assess new account applicants. If any outstanding debt is satisfied and the prior account was not closed because of fraud, participating institutions agree to open the account despite the Chex System notation.

The Get Checking Partnership

In 1998, several factors converged to create an interest in developing an educational program for individuals outside the mainstream banking system. Individual institutions, Norwest Bank in particular, were looking for ways to tap this potential market. The City of Milwaukee provided a forum for the discussion of rental housing issues called the Rental Housing Task Force. Task Force members expressed concern about what welfare reform and Electronic Funds Transfer 99 might mean for renters. Mayor John Norquist then contacted the lending collaborative called New Opportunities for Homeownership in Milwaukee (NOHIM).

There is a history in Milwaukee of financial institutions working together through NOHIM, which was created to increase homeownership opportunities for low-and moderate-income families. NOHIM established a relationship between mortgage lenders and community-based housing counseling organizations. Financial institutions and community based homeownership counselors have identified credit issues as primary barriers for lower-income families to achieve homeownership. NOHIM's participating lenders recognized the primary benefit of the Get Checking Program for their potential mortgage customers: the opportunity to establish a banking relationship as a first step in improving their credit records before pursuing homeownership.

According to Pam Smith-Anderson, Vice President of Firstar's Community Development Division and former Chairperson of NOHIM, "Get Checking offers financial institutions the opportunity to reach new customers, develop the banking relationship and be there when these customers need a mortgage loan or other financial services."

In early 1998, University of Wisconsin-Extension (UW-Extension) facilitated a planning meeting to consider the possibility of offering an educational program for individuals that do not have a banking relationship. Representatives from financial institutions, community organizations, housing counseling groups, property management associations and W-2 providers (agencies responsible for implementing Wisconsin's welfare reform program) convened to plan the program. Consumer Credit Counseling Services agreed to conduct the first class in August of 1998. The program was piloted between August and December of 1998 cooperatively with UW-Extension, Consumer Credit Counseling Services, Firstar Bank, Norwest Bank and West Allis Savings Bank. By 1999, 14 sessions had been held and nine institutions and three corporate sponsors supported the program. By February 2000, another three institutions had joined the program.

In 1999, 316 participants attended the program and 119 established an account with a participating institution. In the first three sessions of 2000, 84 participants attended sessions. Sessions, held monthly, are filled quickly, and the Partnership has recognized the need to schedule additional sessions to meet demand.

"We have seen a tremendous demand from participants and an increasing interest by financial institutions. We are registering participants for our sessions two months in advance. Initially, all of our referrals came from our participating financial institutions. We have seen an increase in referrals from other agencies and through word-of-mouth from former participants. In some cases, entire families are re-establishing their banking relationships," said Kim Terry, Get Checking Coordinator and UW-Extension Educator. "Our goal for 2000 is to generate support to allow for program expansion."

What is Get Checking?

The Get Checking Certificate Program provides participants with the information they need to:

- Learn about low cost account options
- Make appropriate account choices
- Learn how to use an account properly through hands-on practice, writing checks, working with a checkbook register, and balancing the account with the bank statement
- Develop an ongoing relationship with their financial institution to facilitate access to other financial services

The program is six hours long and is usually held over three evenings at a community location. Financial educators from UW-Extension or Consumer Credit Counseling Services are responsible for facilitating the sessions. Representatives from financial institutions are available to answer questions and provide assistance to participants.

According to Paul Haussman, an economist with the UW-Extension, Division of Outreach and Continuing Education, "The key to the success of the Get Checking Program is the partnership. Participants receive the benefits of an objective educational program with the ability to interact in an informal way with financial institutions. A cooperative program like this truly has the greatest impact."

Get Checking Participants

Various studies have determined that up to 22% of the Milwaukee area population does not have an account relationship with a financial institution. These individuals are likely to be minority, low- or moderate-income, younger than 35 years old and renting. These individuals are the least able to afford the costly fees associated with check cashing establishments. Get Checking participants reflect this market: 84% are minority, 79% have incomes less than 50% of county median income and 63% are less than 35 years old.

But as Kim Terry indicates, "Statistics do not tell the whole story. A Get Checking participant is likely to be a young single mother, working and going to school and attending home buying classes to purchase her first home, or a recently married couple that wants to establish a joint account where one partner had a problem account in the past. These participants have great potential for income growth and asset accumulation. Establishing an account with a financial institution gives them the opportunity to accomplish their goals."

According to Patrick Vandenberg, Program Manager of Consumer Credit Counseling Services, a division of Family Services of Milwaukee, Inc, "it is great to teach these classes. You can see the light bulb go on as participants start to realize what they can accomplish with the knowledge they gain in the classes. It is clear that many participants did not have the experience or knowledge of banking practices before Get Checking."

Role of Financial Institutions

The participating financial institutions are an essential component of the program. Institutions make an annual financial contribution to the program, provide representatives for workshop sessions, train staff on making appropriate referrals into the program, and open accounts for graduates. "Financial institutions have the customer contact and know who to refer to the program. Just as important, to be credible to the consumer, financial institutions need to know how the program works, and what to do when a graduate comes in with a certificate to open an account," explained Kim Terry.

Future Goals

Get Checking has had inquiries from around the country from communities that would like to set up a similar program. In 2000, the Get Checking Program plans to develop a curriculum that could be replicated. The Milwaukee collaborative anticipates the curriculum will be available by fall of 2000 and that revenue from its sale can sustain the local effort.

"It is a win-win situation" says Kim Terry. "We have tried and tested the material and have learned by experience what works and what doesn't. Other communities will be able to take this experience and get their program started much more quickly. We have relied on our local financial institutions to get the program started and will use the additional revenue to allow us to become self-sustaining and expand the program."

If you would like more information on the Get Checking Program, contact:

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INDIANA HOUSING *Finance Authority*

Serving Indiana's Affordable Housing Needs

Jennifer Boehm
Director of Marketing and Public Affairs
Indiana Housing Finance Authority

It has been a century since housing advocates in Indiana and the nation began asking the government for funds and programs to deliver safe, decent and affordable housing. For much of this century, the federal government's most visible response to these pleas was the spending of federal funds. Congress spent money for public housing and provided subsidies so Americans could find shelter in public housing or affordable units in private rental developments.

Then, about 25 years ago, responsibility for managing affordable housing finance and development began a dramatic shift toward the states, especially during the 1980s. Congress assisted this effort by equipping the states with tools to attract private investment in affordable housing, rather than depending exclusively on direct federal funding. Direct private investment in affordable housing began to fill the gaps left by the decline in federal funding.

State and local government housing agencies which had been dependent on federal grants and subsidies had to develop new strategies for providing safe, decent and affordable housing. The State of Indiana's housing is a good example. In Indiana, several systems are now in place to increase the availability of affordable housing by increasing the number of private sector investment opportunities.

These systems are based on a growing network of partnerships among the local, state, and federal agencies, for-profit businesses and not-for-profit organizations. The for-profit partners include investment banks, mortgage lenders, commercial banks, corporate investment managers and syndicates, apartment developers, homebuilders, and Realtors.

The Indiana Housing Finance Authority (IHFA) was formed in 1978 by the Indiana General Assembly. The Chairman of IHFA is the State of Indiana's Lt. Governor, Joseph E. Kernan. The Board of Directors is comprised of six representatives from both the State and private businesses.

The people who benefit from IHFA's programs are lower-income and middle-income residents of neighborhoods throughout Indiana. Since housing development is a part of the total picture of economic and community development, the benefits extend well beyond the individual recipients to whole communities. Housing development creates jobs, improves quality of life and promotes community growth. Private investors also benefit since their investments earn solid financial returns.

IHFA's goal is to serve Indiana residents whose housing needs are not currently being met by the private market. However, much like a bank, IHFA must also maintain an attractive investment climate for affordable housing; if performance of housing investments sags, investment capital will move elsewhere.

The Indiana Housing Finance Authority's strategy to help provide affordable housing where and to whom it is most needed includes three basic elements: promotion of homeownership opportunities, development of affordable rental units, and support for community development initiatives that include affordable housing programs.

PROMOTING HOMEOWNERSHIP IN INDIANA

IHFA began by selling tax-exempt Mortgage Revenue Bonds (MRBs) to investors to finance low-interest mortgages for first-time homebuyers. IHFA is now one of the leading bond issuers in Indiana.

The Mortgage Revenue Bond Program attracts funds from investors nationwide who buy the Aaa-rated, tax-exempt mortgage revenue bonds issued by IHFA. Since these bonds have the highest credit rating possible and the interest earned on the bonds is not taxable, investors accept a lower interest rate. This allows IHFA to pass the interest rate savings on to qualified homebuyers through mortgages with below-market interest rates.

Each state is limited in the amount of bonds it can issue each year under the Private Activity Bond Volume Cap established by Congress. IHFA was the first housing finance authority in the country to facilitate financing needs over and above the state's limit. When the taxable and tax-exempt bonds are blended, they still provide an attractive return for investors at below-market rates.

IHFA's low interest rate mortgage and down payment assistance programs are primarily administered through lenders who participate in IHFAs Homeownership Lending Programs. The Homeownership Lending Programs offer down payment assistance, affordable mortgage financing, and tax credits for first-time homebuyers.

The First Home program offers first-time homebuyers a below market interest rate loan through one of IHFA's Participating Lenders. This program may be used in conjunction with FHA/VA mortgage insurance, conventional financing, or rural development. The interest rate varies from time to time but is usually

one-half to one point below the prevailing competitive mortgage rate.

IHFA's First Home/One Down is another program that was the first of its kind in the country. It is a partnership with Fannie Mae, the nation's largest source of financing for home mortgages. This program allows qualified first-time homebuyers to obtain mortgages with a down payment of as little as one percent.

Under First Home/One Down, applicants receive 5 or 10 percent down payment assistance (up to $5,000) in the form of a zero-interest forgivable loan. All applicants must meet income guidelines established by the U.S. Department of Housing and Urban Development (HUD), whose funds are used to make the down payment. The balance of the home purchase, up to 95 percent of the price, is supported by an IHFA First Home loan.

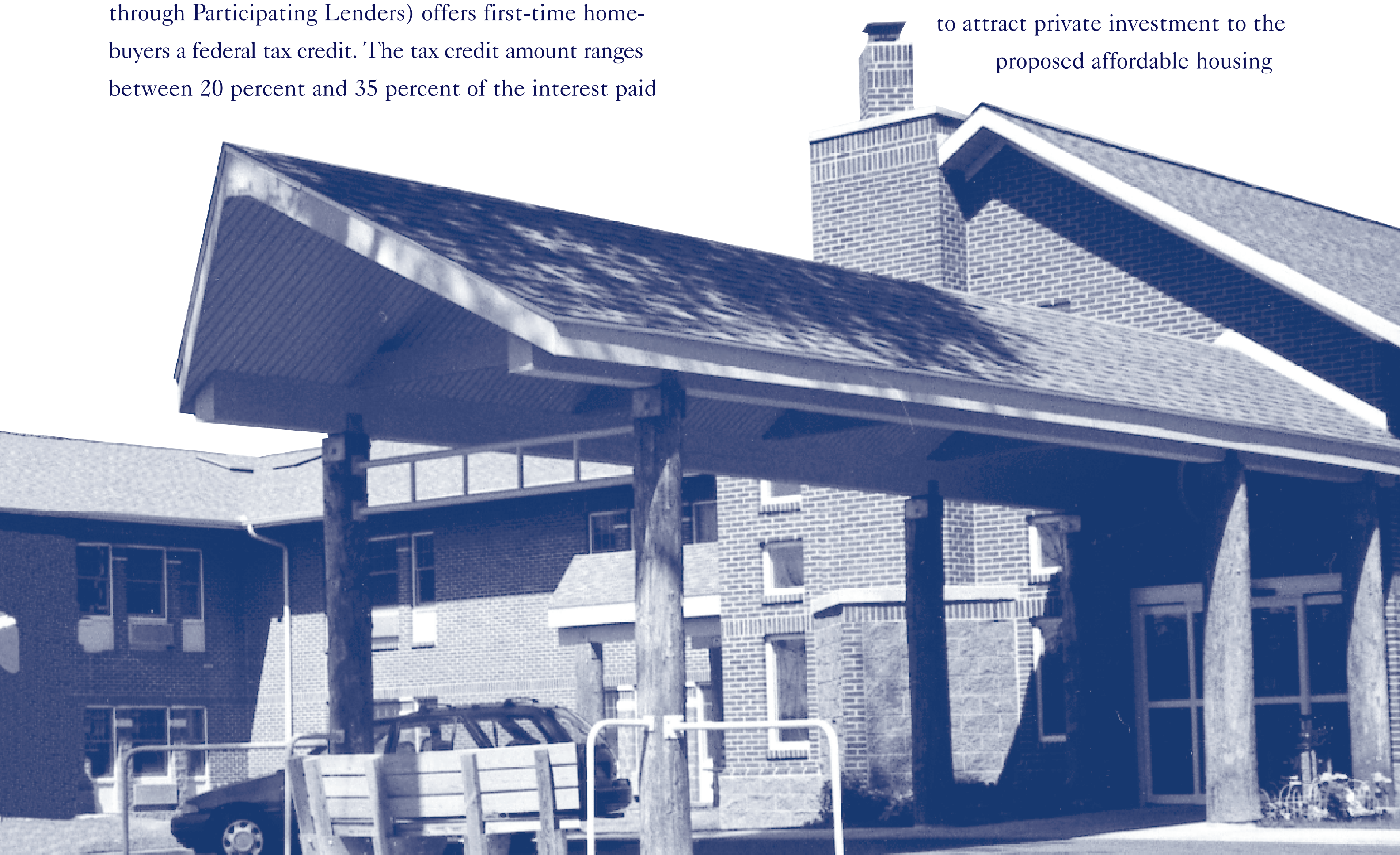
In 1999, 2,942 First Home loans were committed, totaling more than $209 million. The average purchase price was $61,284 and the average household income was $31,427. Of these loans, 1,027 were down payment assisted First Home Loans totaling more than $4.2 million.

The Mortgage Credit Certificate program (also offered through Participating Lenders) offers first-time homebuyers a federal tax credit. The tax credit amount ranges between 20 percent and 35 percent of the interest paid on the mortgage each year, depending on the mortgage loan amount. The maximum credit per year is $2,000. In 1999, 307 Mortgage Credit Certificates were issued. The average home purchase price was $83,751, and the average household income of recipients was $35,305.

RENTAL HOUSING DEVELOPMENT

Almost three-quarters of Indiana households own their own homes. Although many households, especially young couples and senior citizens, are better served by apartment living, few Indiana communities offer privately-owned, affordable rental housing. IHFA works with for-profit and not-for-profit partners to create and preserve affordable rental housing opportunities that fulfill those needs.

During the 1990s, IHFA's principal multi-family housing tool was the Rental Housing Tax Credit. The tax credit is a federal resource allocated in Indiana by IHFA with advice from local governments. Applicants for the credit include for-profit and not-for-profit developers of affordable rental housing. If a developer is successful in winning a credit allocation — the process is highly competitive — they then use the credit to attract private investment to the proposed affordable housing



development. Private investors purchase the tax credits at a discounted rate, but are then able to reduce their federal income taxes by the full amount of the credit over a specified number of years.

It is not unusual for the housing credit to attract half the funds needed for an affordable housing development in the form of equity investment, meaning a sharp reduction in the amount of funds the developer must borrow. Reductions in borrowing mean an ability to charge less rent, which is the goal of the tax credit program. In 1999, IHFA approved competitive tax credit allocations for more than 1,400 units in 31 affordable rental housing developments across the state.

IHFA facilitates investment in affordable multi-family housing by helping to make tax-exempt multi-family housing bonds available. Tax-exempt multi-family revenue bonds support debt needs of developers planning to develop or create affordable rental housing. In 1999, IHFA approved $35.3 million in multi-family tax-exempt bond issues to finance 1,008 units of affordable housing.

Due to the impending expiration of HUD Section 8 contracts, three Indiana cities were at risk of losing a combined total of 652 affordable rental units. As Section 8 contracts expire, property owners are free to increase rents to market rates. In December 1999, IHFA issued its first tax exempt bond to preserve affordable housing units in the five at-risk developments. The tax exempt bonds enabled the sale of these properties to a not-for-profit entity, guaranteeing that they will remain affordable for 20 more years.

Also in 1999, IHFA was approved by HUD's Office of Multifamily Housing Assistance Restructuring (OMHAR) to be the Participating Administrative Entity (PAE) for the State with regard to Section 8 properties whose rents are above market. This enables IHFA to administer HUD's Mark-to-Market Program for the State of Indiana. The Mark-to-Market Program enables Section 8 properties to restructure their rents and/or debt in order to bring rents more in line with market rates. IHFA has been assigned and is processing three full debt restructures and four rent restructures ("lites"). As of January 2000, two of the lites had been completed and submitted to OMHAR for approval.

▲

KATHY PRESNELL AND HER 4-YEAR OLD DAUGHTER, EVANGE

their new two-bedroom home, located inTerre Haute, Indiana, in May. T
Down program, Presnell moved in with only a $350 down payment on th
are $277.63 on the 30-year loan. Under the First Home/One Down progra
with as little as one percent down. Home buyers receive five percent to
assistance in the form of a no-interest loan. If the buyer occupies the ho
down payment may be forgiven. (Photos/Jim Avelis)

CASE STUDIES

Indiana Housing Finance Authority

BEND IN THE WOODS

This is a 48-unit development located at 1801 Smith St., in Logansport, Indiana. A HOME grant in the amount of $500,000 assisted in the development of these units designed to serve elderly residents who need affordable housing. The development was also financed in part by using $243,548 in tax credits.

(Photos/R. Van Marter)

"EVIE," moved into
s to a First Home/One
,000 home. Payments
he can buy a home
ercent down payment
or five years, that

SHELBYVILLE HIGH APARTMENTS:

This 49-unit development, located in Shelbyville, Indiana, was financed using $148, 319 in annual tax credits over a 10-year period. This development was a renovation of a historic high school into affordable apartments. The interior paintings show the spirit that was once Shelbyville High and is now Shelbyville Apartments. Total development cost was $2,248,913. (Photos/Melanie Reusze)

COMMUNITY DEVELOPMENT

The Indiana Housing Finance Authority's Community Development programs are designed to fill gaps in Indiana's affordable housing needs that are not met by homeownership and rental housing programs.

IHFA's "Housing from Shelters to Homeownership" program utilizes federal Home Investment Partnerships program (HOME) and Community Development Block Grant (CDBG) funds. These funds help finance a variety of housing activities including the rehabilitation or development of emergency shelters, youth shelters, transitional housing, migrant farm worker housing, rental housing, homeownership counseling, down payment assistance and single-family homeownership. The program may be used by local units of government, designated Community Housing Development Organizations (CHoDOs), and other not-for-profit organizations to meet the housing needs of their particular communities.

IHFA's "Foundations" program utilizes HOME and CDBG funds to help fund pre-development activities such as housing needs assessments and site-specific feasibility studies. Local units of government can apply for CDBG grants for housing needs assessments and site-specific feasibility studies while CHoDOs can apply for HOME loans for pre-development activities. In 1999, IHFA granted $15.6 million in HOME and CDBG funds to 70 grantees in 40 counties across the state, impacting 864 housing units.

Throughout Indiana, the challenge that communities face is to simultaneously increase capacity of, and preserve access to safe, decent, and affordable housing. Fulfilling this important community need is often difficult because of competition for resources, regulatory constraints, and unpredictable budget cycles. Recognizing that the need for affordable housing increasingly surpasses the supply, the Indiana General Assembly created the Low Income Housing Trust Fund.

The Fund was established in 1989 to provide financing options to non-profit corporations for the development of safe, decent, and affordable housing in Indiana communities. The Indiana Low-Income Housing Trust Fund is primarily a revolving loan fund. It uses various State funding sources to provide additional financing options for projects that may not meet the guidelines of other federal or state programs. The Trust Fund may be used by not-for-profit housing developers to obtain financing for various kinds of housing development. Administration of the Fund was delegated to IHFA. The Fund consists of appropriations from the General Assembly, gifts and grants to the Fund, investment income earned from the Fund's assets, funds borrowed from the Public Depositories Insurance Fund and contributions from IHFA's "dividend." IHFAs 1998 dividend was $1.455 million and in 1999 it was $1.1 million.

In 1999, the Low-Income Housing Trust Fund made $4,721,200 in loans and $715,095 in grants to 28 developments in 24 counties. This resulted in the creation of 606 housing units including emergency shelters, transitional housing, rental housing and owner-occupied units.

In Indiana, IHFA is working with private investors and financial institutions to finance affordable rental and owner-occupied housing. Above all, Indiana's success in affordable housing in recent years is owed to homebuyers, bond investors, rental housing investors, mortgage lenders, banks, neighborhood groups, not-for-profit organizations and federal and local governments. They have seen that well-structured investments can serve the housing needs of Indiana's residents and also produce reasonable financial returns for investors.

This record holds much promise for meeting the needs of those who, even after a century of housing advocacy, still have unmet needs for safe, decent and affordable housing.

For more information on Indiana's housing programs, call Jennifer Boehm, Director of Marketing and Communications, Indiana Housing Finance Authority at 317/232-7781.

USING TAX INCREMENT FINANCING

AS AN AFFORDABLE HOUSING DEVELOPMENT TOOL

Andrea Smith / Assistant Commissioner / Chicago Department of Housing

A few years ago, many vital Chicago neighborhoods were at a crossroad. Development activities had stagnated, and run-down and abandoned buildings and blighted vacant lots were becoming all too common. Chicago's Mayor, Richard M. Daley, and his policy advisors began searching for innovative solutions to preserve the viability and stability of Chicago for future generations.

Today, thanks to the committed efforts of the city, along with its private-sector partners, there is another more positive story to tell. City neighborhoods are coming alive with redevelopment. Growth is occurring in virtually every community throughout Chicago.

In a diverse cross-section of areas, new industrial facilities are replacing abandoned factories and providing thousands of Chicagoans with high-paying employment. Shopping centers are appearing in neighborhoods that have not seen new retail development in over a generation. Former brownfields are being converted to clean, usable land.

Equally significant is the fact that many long vacant parcels of City-owned land are being transformed through the development of both affordable and market-rate new homes for individuals and families.

The City of Chicago's Department of Housing has successfully used Tax Increment Financing (TIF) to redevelop blighted areas of the city and, among other things, provide needed affordable housing.

TAX INCREMENT FINANCING

TIF is a popular and effective economic development tool that allows local governments essentially to borrow against anticipated increases in revenue from neighborhood improvements. This innovative approach to funding public improvements that support and encourage private development and investment (in areas that probably would not benefit from private investment without public involvement) helps return vacant and underused property to the tax rolls. By maximizing the use of the land, the city is able to maximize the property tax revenue stream without raising local property tax rates.

TIF districts were established in Illinois in 1977. The Chicago City Council has approved 96 TIF districts in Chicago, emphasizing their critical role in community revitalization. Today there are more than 400 TIF districts in Illinois, including Chicago's 96 districts.

According to a recent city study, despite nearly 20 years of declining state and federal resources to urban communities, Chicago is enjoying strong economic growth, due in part to the creative use of Tax Increment Financing. The study demonstrates the success of TIF-funded projects in terms of both job creation and leveraging private investment.

Through 1998, TIF-funded projects in Chicago had created/retained 33,983 jobs, and every dollar of public investment was matched by well over five dollars in private investment.

Although TIF is most commonly perceived to be a commercial and industrial development tool, it has generated thousands of units of affordable rental housing in Chicago. When Mayor Daley took office in 1989, the city made a far reaching commitment to revitalize communities and expand affordable housing opportunities in Chicago through a variety of innovations and initiatives for individuals and families of various income levels.

The city's first TIF district established exclusively for the development of affordable housing was designated by the Chicago City Council in 1994. The development of Phase V of the Paul Stewart Apartments created 96 units of needed affordable housing in Chicago's South Side Grand Boulevard neighborhood.

The Bryn Mawr-Belle Shore and the 43rd & Cottage Grove TIF districts illustrate the significant impact of TIF financing on affordable housing options.

BRYN MAWR-BELLE SHORE TIF DISTRICT:

Preservation of Two Landmarks Provides Affordable Rental Housing

During the first half of the 20th century, the Bryn Mawr and Belle Shore Hotel Buildings were architectural jewels and an immense source of neighborhood pride to the Edgewater community on Chicago's North Side. Originally built as upscale residential hotels, their fortunes had changed dramatically by the 1990s. Badly neglected and falling into disrepair, they eventually were abandoned and slated for demolition.

The City's Department of Housing, with strong community support, stepped in to save the landmark structures. The City created the Bryn Mawr-Broadway and Edgewater TIF Districts, which included a residential TIF to breathe new life into these key sites and ensure their long-term physical stability and beauty.

"This multi-family rental development represents a major component of the City's strategy of rebuilding neighborhoods by providing needed affordable housing, without displacing the residents who have lived within a community for years," Chicago Housing Commissioner John G. Markowski said.

The redevelopment of the two landmark Chicago hotels, two separate development projects, cost a total of $26.4 million. Both hotels required extensive exterior renovations designed to maintain the historical and architectural significance of the buildings, and complete interior rehabilitation.

In 1999, these properties were recognized by the National Trust for Historic Places, and they were nominated in early 2000 as finalists in the annual "Good Neighbor Awards," a prestigious honor that salutes those residential and commercial buildings that have positively impacted the communities in which they are located. The "Good Neighbor Awards" are sponsored annually by the Chicago Association of Realtors.

TIF SUPPORTS BRONZEVILLE'S REBIRTH

It has been more than 20 years since the once-proud Grand Boulevard community on Chicago's South Side, also known as "Bronzeville," experienced any new commercial or residential construction.

In the shadow of the Robert Taylor Homes–a public housing development–the years of disinvestment in the neighborhood have caused severe economic, physical and social deterioration.

Recently, however, a new era of affordable housing has emerged, thanks to a committed public/private-sector partnership between the City of Chicago, the Chicago Housing Authority (CHA) and private-sector limited partners. These partners include Hearts United Development Corporation, a not-for-profit consortium of local churches and neighborhood organizations, and the minority-owned, for-profit Bonheur Development Corporation, headed by affordable housing specialist Fred Bonner.

The Hearts United Apartments, currently under construction, will consist of 116 low-rise, one- to four-bedroom affordable rental apartments in three- to six-unit buildings in an area bounded by 39th and 47th streets, between Cottage Grove and Vincennes Avenue. This development will return 39 city-owned vacant lots to the tax rolls, providing further economic benefits both to the neighborhood and the city. The Hearts United project is located within the 43rd Street and Cottage Grove Redevelopment Area, a recently designated TIF district.

According to Fred Bonner, whose Bonheur Development Corporation has developed more than 3,000 government-assisted housing units in his 28-year career, the goal is not only to create housing, but, as he puts it, to also rebuild communities.

"We are building quality, affordable housing that blends seamlessly into the existing area. It should not be readily identifiable as public housing, market-rate housing, or whatever. There's no reason why people with lower incomes have to endure negative character judgements by others based on the type of housing they live in," said Bonner.

In 1994, Bonner developed 96 units of affordable rental housing in Chicago's first residential TIF, the Paul G. Stewart Apartments, located at 41st & King Drive. Five years later, this well-maintained development endures as a successful model of mixed-income rental housing developed through the use of TIF funds.

"The groundbreaking of Hearts United exemplifies the positive transformation which can occur when a committed partnership exists between the City of Chicago and the private sector," said 4th Ward Alderman Toni Preckwinkle. "These affordable rental homes serve as a model for the future integration of public housing into larger residential neighborhoods, creating strong, mixed-income communities."

With $2.5 million in federal HOPE VI funds being provided to the project by the Chicago Housing Authority, 25% of the units will be reserved for public housing residents, providing replacement housing for the Robert Taylor Housing project. The remainder of the development will be a mix of market rate (30%) and affordable units, which will be available to, and rented by, families earning less than 60% of area median income.

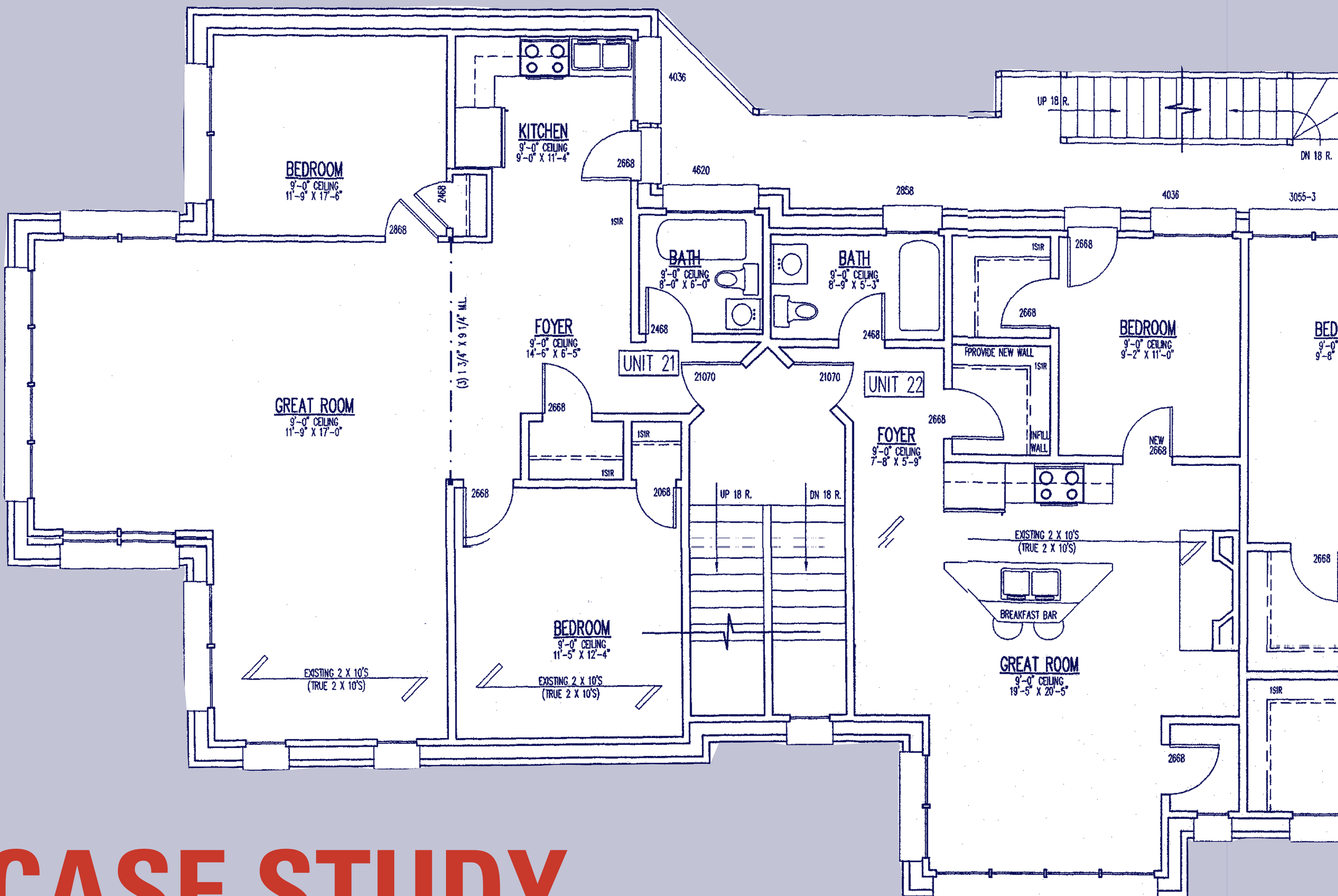
The establishment of the Hearts United project will go a long way to turn around a neighborhood once characterized by urban decay and blight into a healthy, stable mixed-income community with a diverse range of affordable housing options for its residents.

NEIGHBORHOOD IMPROVEMENT FUND:

Helping Moderate-Income Residents Repair Their Homes

In the Woodlawn neighborhood on Chicago's Southeast Side, Ms. Sadie Wilks lives in a working-class community dotted with vacant lots, run-down but imposing turn-of-the-century graystones, as well as solid, single-family and two- and three-flat brick buildings.

Woodlawn is a community of contrasts: on the eastern border of the neighborhood, there are signs of modest gentrification, as new and existing home owners work to restore the luster to the neighborhood by repairing and renovating their solid, brick, single-family homes and multifamily buildings. On the community's western edge, there are higher concentrations of lower-income residents. Redevelopment efforts, while more challenging than new construction, are attempting to move forward.



CASE STUDY

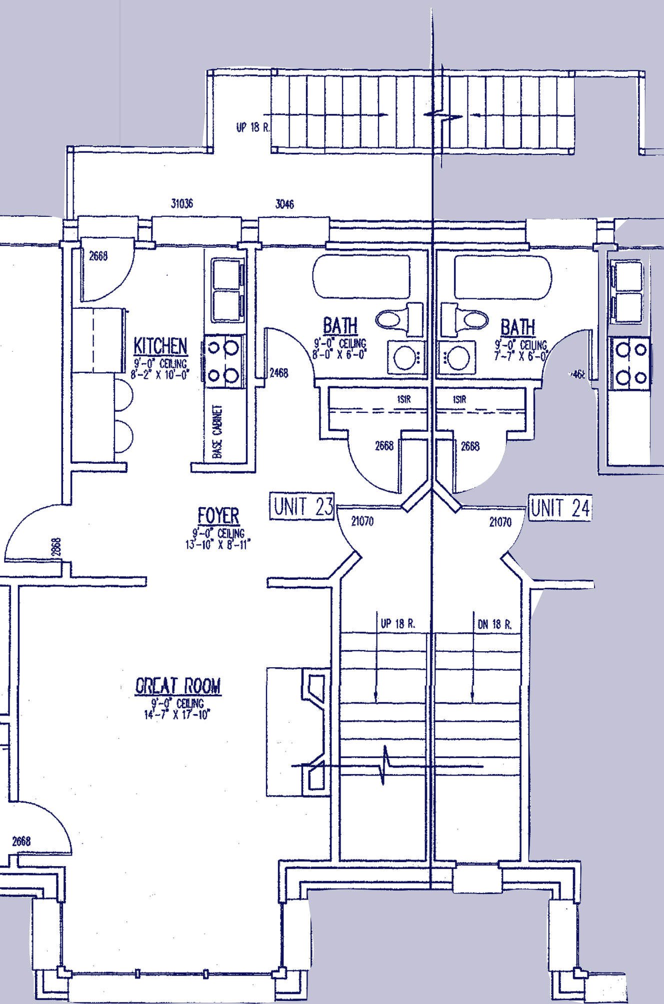
TIF/NIP: A Multifamily Rehab Success Story

For months, William Imberger and John O'Hara would walk up and down Chicago's streets in search of a multifamily apartment building to buy. "We targeted certain undervalued areas with upturn potential and would stop people in front of buildings we were interested in and ask them if they knew anything about the building," O'Hara said.

One afternoon Imberger found himself in front of 6437-41 South Kenwood - a 22-unit, L-shaped building located in Woodlawn. A woman walking her dog strolled by, and Imberger asked her if she knew if the property was for sale. As it turned out, the woman was the owner of the building and was interested in selling. A deal was struck with the woman, and Imberger and O'Hara bought their first multifamily building.

Located in the middle of its block, 6437-41 South Kenwood was an eyesore. It had been vacant for more than three years, and it had been vandalized. The other buildings on the block had been or were currently undergoing extensive rehabilitation, and new single-family homes were being built. The rehab of this 22-unit building would complete the revitalization of this Woodlawn block.

Imberger and O'Hara were well-prepared for the job. Both are self-employed contractors who had partnered on several other projects over the last 16 years, including single-family homes, commercial new construction, office build-outs and masonry and concrete contracting. The partners planned to perform the bulk of the carpentry and all of the masonry, demolition and decoration on their new property.



Before the rehab could take place, O'Hara and Imberger needed financing. The building required a complete gut rehab, including restoring woodwork, replacing doors and crown moldings and updating electrical systems and plumbing. "We wanted to make this vintage building fully functional as well as restore its charm," O'Hara said.

Low-cost financing and City of Chicago funds were necessary to undertake this extensive rehab project.

While researching their options, Imberger and O'Hara came across the Community Investment Corporation, a not-for-profit organization that provides below-market rate rehab loans for multifamily buildings in Chicago's low- and moderate-income neighborhoods. They discovered that CIC not only provided financing, but it also administered several city-funded programs, including the Tax Increment Financing/Neighborhood Improvement Program.

The TIF/NIP program provides grants of up to $5,000 per unit, and a $50,000 maximum per building, to rehab multifamily buildings located within the Woodlawn and Bronzeville TIF areas. Grants must be matched, either through personal funds or loan proceeds. These funds are used primarily for exterior repairs, but up to 30% can be used for interior health and safety items.

CIC provided Imberger and O'Hara with a $670,000 "Flex Loan" and a $50,000 TIF/NIP grant to rehab their 22-unit building. The Flex Loan Program is a special CIC loan fund that places less emphasis on appraised value and instead focuses on a strong projected cash flow. The grant was matched with $50,000 of the loan funds.

"A traditional loan would have only provided financing totaling 80% of after-rehab appraised value," said Anthony Hawthorne, CIC loan officer. "This clearly would not cover the cost of a project of this scope. Aside from government financing, the use of Flex financing and the TIF/NIP grant was the only conventional and least expensive way to rehabilitate the building."

"We were attracted to the convenience of CIC's programs," O'Hara said. "We were able to obtain a loan, a grant and matching funds all at the same time and place, which allowed us to close the transaction sooner and immediately start the rehab. What's more, the TIF/NIP grant allowed us to put $50,000 less of our own cash into the building."

The rehab of 6437-41 South Kenwood will be completed in the fall of 2000 and will provide affordable rental units for Woodlawn's low- and moderate-income residents. For more information, call CIC at (312) 258-0070.

It is a community that has experienced its ups and downs. Ms. Wilks, a retired widow, shares a plight common to many of her neighbors: they all need to make extensive repairs on their homes, but they lack the financial means to pay for the needed rehabilitation projects. Many are seniors living on fixed incomes. Others have credit and affordability issues that make securing a general consumer loan at reasonable interest rates a difficult proposition. Until recently, there were few options for these homeowners, many of whom have owned their homes and lived in the community for decades.

That's where the TIF-funded Neighborhood Improvement Program (NIP) comes in. Neighborhood Improvement Program is a pilot program designed by the Chicago Department of Housing to utilize resources within TIF areas for housing-related projects that promote neighborhood stability and renewal. In addition to the creative use of TIF funds, this program was made possible through an innovative public/private partnership.

A $2 million loan pool for NIP is being underwritten by the Local Initiatives Support Corporation (LISC) Chicago office. It will draw on funding from eight Chicago lending institutions to provide grants for exterior home improvements and repairs for single-family and small multifamily buildings in two targeted, low- to moderate-income communities in the city: Bronzeville and Woodlawn.

Bronzeville and Woodlawn were chosen as the first sites for this pilot initiative because they have existing TIF districts that include large residential areas.

The City of Chicago will distribute the grants through two intermediaries: Neighborhood Housing Services of Chicago (NHS) and Community Investment Corporation (CIC). NHS will administer $1 million in grants to owners of buildings with one to four units; CIC will administer another $1 million in grants to owners of small, multi-family properties with five or more units.

To be eligible for this program, single-family applicants must be owners and occupants who have lived in their homes for at least three years. Applicants under the multifamily portion of the program must agree to specified limits on rent increases for their tenant over the next five years. All who participate in the program must be able to meet income guidelines, earning up to but not more than 120% of the area's median income.

The banks' loans to the city will be repaid through higher property tax revenues in the future. To repay the loans, property tax revenue will need to increase only 1% per year. The eight participating financial institutions are: Allstate Insurance, Bank One, Bank of America, Cole Taylor Bank, Harris Bank, LaSalle Bank, the Northern Trust Company and South Shore Bank.

The Neighborhood Improvement Program is unique because it is the first city program that uses tax increment financing funds to help owners of existing homes improve their properties. Equally significant is the fact that these are grants, not loans, to homeowners. There is no additional financial burden.

Community response to NIP has been very positive. This program is one component of a $20 million package of affordable housing initiatives that Mayor Daley announced during 1999 to help Chicago residents repair, maintain and improve existing homes.

"This is a tremendous opportunity for long-time, moderate-income Chicago residents to reap some of the benefits of the revitalization efforts currently underway in communities across the city," said Chicago's Housing Commissioner, John Markowski. "The TIF Neighborhood Improvement Program is a smart investment in our neighborhoods."

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