COMMUNITY REINVESTMENT
cr forum

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Beyond Section 8:

Neighborhood Capital Corporation Will Help Organizations to Preserve Affordable Housing

Affordable housing faces some formidable challenges in the next decade, the outcomes of which will determine the fate of thousands of affordable-housing units and, ultimately, the well-being of the people who depend on them. In *CR Forum's* Spring 2000 issue, we covered a problem that still looms large on the housing-market horizon: keeping almost 800,000 apartments, including single- and multifamily dwellings, within the affordable-housing market.

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AN EXCHANGE OF COMMUNITY DEVELOPMENT ISSUES AND IDEAS

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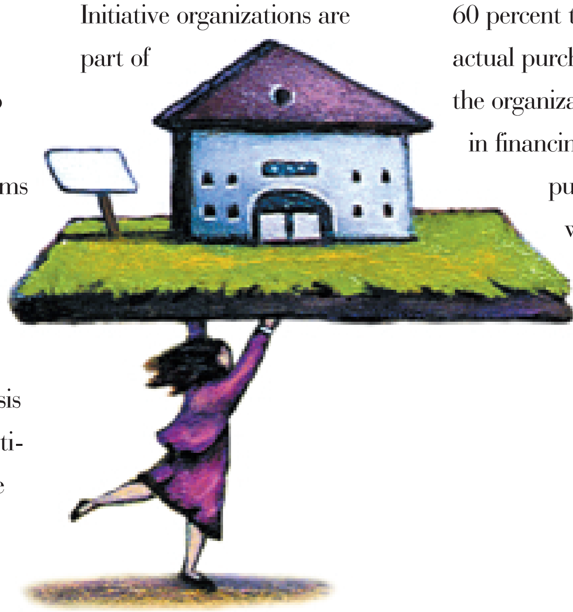
At the heart of the challenge is the pending expiration of a large percentage of government rent-subsidy contracts that offer no expectation of renewal. In the 1970s, the federal government and private owners entered into these contracts to create affordable-housing projects. In return, the government made a 25- to 30-year commitment to provide monthly rent subsidies for tenants. With the expiration of these contracts, affordable real estate assets will transfer, exposing them to market-rate conversion. The primary vehicle for the rent-subsidy dollars is the Section 8 program administered by the Department of Housing and Urban Development.

One way to keep these units in the affordable-housing market is to purchase them. A Cleveland-based nonprofit financial intermediary, Neighborhood Capital Corporation (NCC), was established in early 2000 to support the development initiatives of organizations that are preserving and creating affordable multifamily housing opportunities. These organizations are members of the three-year-old NeighborWorks® Multifamily Initiative, a program established by the federally chartered Neighborhood Reinvestment Corporation. Multifamily housing refers to traditional rental housing, mutual housing, or other forms of long-term, jointly owned housing.

According to Robert Hudecek, NCC's executive director, "There will be a crisis in the housing market if multifamily units are lost from the affordable market and are converted to market rate." The National Housing Trust reports there are currently 640,000 units of affordable multifamily housing that may be in jeopardy of market-rate conversion. NCC plans to mitigate this loss by making loans to the initiative's 43 member organizations for the purchase of properties that, in some cases, are also being considered for purchase by developers working at market-rate prices. The Multifamily Initiative organizations are part of Neighborhood Reinvestment's NeighborWorks network of approximately 200 nonprofit development organizations around the country.



"Banks are hesitant to finance this kind of activity on the front end," says Hudecek, "because often the commitments for permanent financing are not yet in place." He adds, "In those instances where a bank is willing to consider this type of financing, typically they would be likely to finance only 60 percent to 80 percent of the actual purchase costs, leaving the organization with a gap in financing to complete the purchase. This is where NCC steps in, to bridge that gap for them." NCC's financing accounts for up to 25 percent of the project costs during the predevelopment and acquisition phase of project development and will subordinate to first-lien financing from the conventional marketplace.

In its first year of operation, NCC secured a grant from Neighborhood Reinvestment for $3.0 million in initial capital and operating support over three years. It seeks to leverage this capital through a fund-raising campaign to attract additional dollars in the form of grants, equity investments, and program-related investments. NCC is also collaborating with nationally recognized organizations such as the National Housing Trust, a partner in participating loans and mutual support services.

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CRA "Sunshine" Disclosure and Reporting

by Barbara Kuntz
COMMUNITY AFFAIRS EXAMINER

The Federal Deposit Insurance Act requires public disclosure and annual reporting of certain written Community Reinvestment Act (CRA) agreements between insured depository institutions or their affiliates and nongovernmental entities or persons (NGEPs), such as nonprofit organizations. These requirements—which became effective April 1, 2001—are known as the CRA "Sunshine" provision because they are designed to shed light on CRA-related agreements.

The Sunshine provision provides public disclosure of CRA-related agreements to allow the public and the appropriate agencies to monitor how resources are being used. Information must be disclosed both to the public and to each financial institution's regulatory agency.

The CRA Sunshine requirements apply only to agreements made in fulfillment of the act. They apply to funds or other resources of insured depository institutions or affiliates with an aggregate value of more than $10,000 in any calendar year, or to loans with an aggregate principal value of more than $50,000 in any calendar year, and entered into by an insured depository institution or affiliate and an NGEP.

Disclosures to the Public

Insured depository institutions or their affiliates and NGEPs must make the following information available to the public upon request:

- Names and addresses of the parties to the agreement
- Amount of any payment, fee, loan, or other consideration to be made or provided by any party to the agreement
- How the funds or other resources provided under the agreement are to be used
- Term of the agreement (if applicable)
- Other information that the relevant supervisory agency determines is not properly exempt from public disclosure.

Disclosures to the Regulatory Agencies

Other confidential information that is not available to the public must be provided to the supervisory agencies, such as new and innovative programs, underwriting standards, competitive pricing information, or personal data that would otherwise be protected under applicable privacy rules. Insured depository institutions and their affiliates have two options for disclosing information to the supervisory agencies.

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Option 1: Quarterly Reporting

Within 60 days of the end of each quarter, institutions may elect to file with the supervisory agency (1) a copy of each agreement entered into during the calendar quarter, or (2) a listing of all agreements entered into during the calendar quarter. If a listing is provided, the following information must be included in the disclosure:

- Name and address of each party to the agreement
- Date the agreement was entered into
- Estimated total value of all payments, fees, loans, and other considerations to be provided by the institution or any affiliate under the agreement
- Date the agreement terminates.

Option 2: Reporting by Request

If the insured depository institution and its affiliates choose not to file quarterly, the supervisory agency may request this information, which the institution must provide within seven calendar days of receiving the request. If an agreement has expired, the agency may request a listing of that agreement up to 36 months after termination. This provision allows the supervisory agency to review the terms of the agreement, in the event that questions are brought to its attention from the public.

Annual Reporting

The CRA Sunshine provision also requires each NGEP, insured depository institution, or affiliate to report at least annually on its disbursements, receipt, and use of funds under the covered agreement. Specifically, the NGEP must provide an account of how the funds were used, as well as the following information:

- Name and mailing address of the NGEP
- Names of the parties to the agreement and the date it was entered into
- Amount of funds received by the NGEP under the agreement during the fiscal year.

Insured depository institutions and their affiliates must report the following information to the supervisory agency:

- Aggregate amount of payments, fees, and loans provided and/or received by the institution from any other party during the fiscal year
- Terms and conditions of any payment, fee, or loan provided or received
- Aggregate amount and number of loans, investments, and services provided to any NGEP that is not a party to the agreement.

For more information about the CRA Sunshine provision, contact any of the federal banking regulatory agencies, or visit *http://www.federalreserve.gov/boarddocs/press/boardacts/2000/200012214/default.htm*. The Federal Reserve Bank of Cleveland will host training sessions on the regulation in the following locations:

April 26	Erie, Pennsylvania	May 2	Dayton, Ohio	May 8	Ashland, Kentucky
April 27	Manchester, Pennsylvania	May 3	Cincinnati, Ohio	May 15	Cleveland, Ohio
April 30	Wheeling, West Virginia	May 7	Lexington, Kentucky		

For more information or to register, call Jacqueline King in the Community Affairs Office at 216/579-2903.

# of interest

Appalachian Awakening Conference Scheduled for April

The Federal Reserve Banks of Atlanta, Cleveland, and Richmond, and the Appalachian Regional Commission will host a one-day conference on workforce development in rural Appalachia on April 26, 2001, at the MeadowView Conference Resort and Convention Center in Kingsport, Tennessee. The event will highlight winning strategies for workforce development and sustainable community building. Participants will gain knowledge and hands-on experience from other community development practitioners by working on case studies to address community development issues.

David H. Ciscel, professor of economics at the Fogelman School of Business and Economics, University of Memphis, will deliver the keynote address.

For information or to register, contact Bonnie Falls, Federal Reserve Bank of Richmond, at 804/697-8114, or visit *http://www.rich.frb.org/cao/conf.html.*

Fourth District Represented on Fed Consumer Advisory Council

The Federal Reserve Board of Governors has appointed J. Patrick Liddy, vice president and director of compliance for Fifth Third Bancorp in Cincinnati, Ohio, to a three-year term on its Consumer Advisory Council. The Council, which meets three times a year in Washington, D.C., advises the Board of Governors on the exercise of its responsibilities under the Consumer Credit Protection Act and other matters in the area of consumer financial services.

Liddy is responsible for bank and trust compliance for Fifth Third's Ohio, Kentucky, Indiana, and Florida banks, as well as its Arizona thrift. In this capacity, he reconciles bank practices with federal and state laws and regulations, in addition to addressing compliance training, consumer issues, and regulatory simplification. Liddy is an active member of the Cincinnati-area United Way and the Fine Arts Fund of Cincinnati.

For more information on the Federal Reserve's Consumer Advisory Council, contact Greg Bell, Banking Supervisor, at 216/579-2955.

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Taking a Closer Look at Housing Challenges: A Mayor's View

DAVID J. BERGER
Mayor, City of Lima, Ohio

David J. Berger has served as the mayor of Lima, Ohio, since 1989. Under his administration, the city launched its Department of Community Development to focus on neighborhood revitalization and began to facilitate community dialogues on race and diversity, creating study circles to encourage positive individual and community change. Nearly 30 projects involving more than $50 million in investments have helped to revitalize downtown Lima. Berger, a Mansfield, Ohio, native, has worked in the Lima community for nearly 25 years; prior to his election as mayor, he was the executive director of Rehab Agency, a nationally recognized organization that trains criminal offenders to renovate single-family housing.

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In December 2000, the Federal Reserve Bank of Cleveland presented *A Profile of Lima, Ohio*, to 50 people representing community lenders, neighborhood associations, social service agencies, and city and county leaders.

Prepared by the Community Affairs staff of the Federal Reserve Bank, the 37-page profile provides a demographic and economic analysis of the Lima metropolitan area, with a particular emphasis on our city's home mortgage lending activity. Although some analysis of Home Mortgage Disclosure Act data has appeared in past issues of the City of Lima's *Housing Consortium Newsletter* and its *Consolidated Plan and Analysis of Impediments to Fair Housing Choice*, this meeting was the first public discussion of these issues in many years.

Lima's housing market is generally considered to be affordable, but after several decades of economic hard times and out-migration, the condition of housing in many areas of the community is seriously deteriorated. While the City of Lima (in partnership with the local community action agency, the Lima/Allen Council on Community Affairs) is having more success in encouraging homeownership through its down-payment assistance program, the profile calls attention to the serious issues that remain. For example, while African Americans constitute more than 20 percent of the population in the study area, only 12 percent of homeowners are African American.

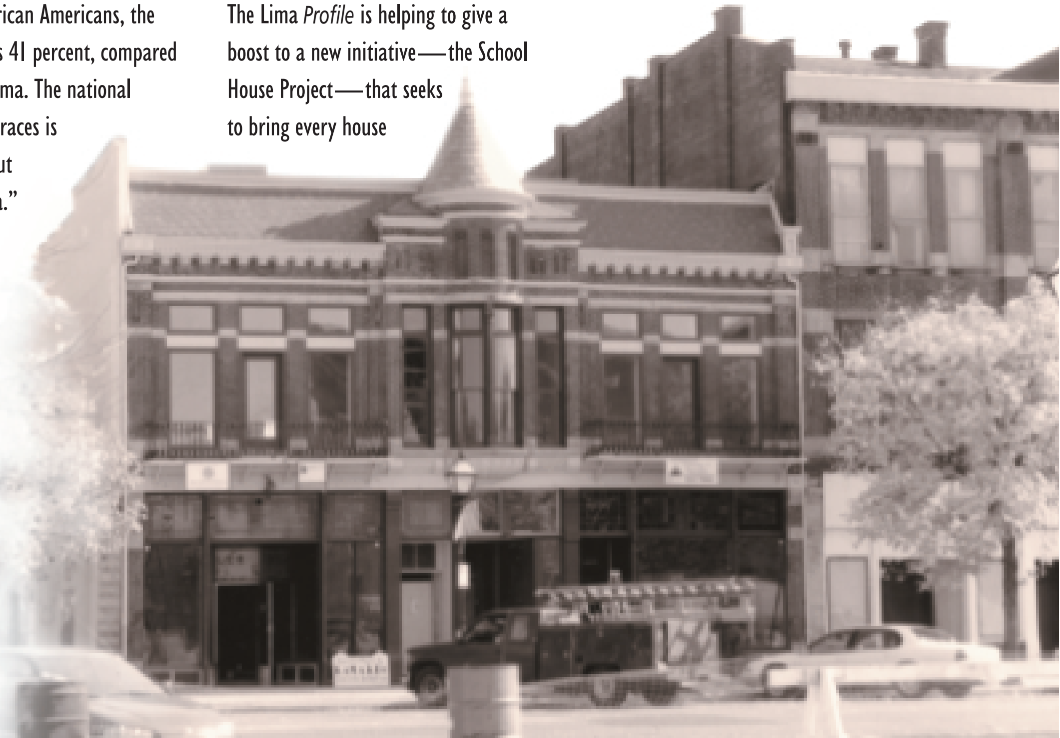
Of particular concern is the denial rate for home-improvement loans in our area. Homeowners need access to credit if their homes are to be brought up to housing codes. According to the Federal Reserve profile, "The denial rate for home improvement loans in 1998 was much higher than the national average and of considerable concern to interviewees. Nationally, the denial rate for white applicants seeking home-improvement loans is 23 percent, but in Lima it is 42 percent. For African Americans, the national average is 41 percent, compared to 66 percent in Lima. The national average across all races is only 27 percent, but 48 percent in Lima."

Clearly, we have much work to do, and the Federal Reserve's analysis will help us take the next steps. Lima has had recent successes with downtown redevelopment and anticipates a half-billion-dollar investment by Global Energy. A local school bond issue, together with funding from the State of Ohio, will provide more than $100 million to replace all Lima public school buildings during the next five years, including a new high school that will revitalize a distressed neighborhood. Although we know we face serious challenges, these and other successes have resulted in renewed community optimism about Lima's future.

We know that housing development must accompany with the other progress. The Lima *Profile* is helping to give a boost to a new initiative—the School House Project—that seeks to bring every house facing a new or renovated public school up to city codes during the next five years. The *Profile* has provided a way to begin discussion with area lenders about a partnership combining the city's Community Development Block Grant and HOME resources with the additional lending power needed to serve all members of our community.

We hope to look back in five years with an even greater appreciation for this boost.

To request a copy of the "Profile of Lima, Ohio," contact Laura Kyzour, Federal Reserve Bank of Cleveland, at 216/579-2846.



"I think what makes us unique is the support from Neighborhood Reinvestment in terms of those grant dollars," says Hudecek. Organizations that receive NCC loans continue to benefit from the Multifamily Initiative's ongoing technical assistance, resource development, and asset-management support and monitoring. "There's no other intermediary I'm aware of that's providing this type of all-encompassing service," observes Hudecek.

NCC's loan committee, which comprises practitioners in the affordable-housing industry, reviewed two loan applications during its first year. Now that most of its organizational systems are in place, Hudecek expects that, over time, NCC will examine about one application every month. In reviewing applications, NCC will consider the merits of each project, with a sensitivity toward local market conditions.

Initially, NCC is restricted to providing loans to NeighborWorks Multifamily Initiative members, explains Hudecek, but as organizations outside the NeighborWorks network learn about NCC, they may also ask for financing. "When we have the capacity and capital to open our doors to other organizations, we'll certainly entertain the idea," says Hudecek. He says that the NeighborWorks program is expected to grow by 10 new members each year. Many of these organizations go on to become Multifamily Initiative members, thereby increasing the number of organizations seeking help from NCC.

NCC plans to use Neighborhood Reinvestment's capital grant to establish a 15 percent loan-loss reserve fund that will be used to leverage investments by financial institutions to create an initial loan fund of $12.0 million, with a goal of $35.0 million by the end of 2005. NCC's strategic plan calls for developing 10,000 units of affordable multifamily rental housing between 1999 and 2004. Hudecek notes that NeighborWorks members currently hold more than 25,000 multifamily units in their portfolios across the country, while Multifamily Initiative members hold 100–2,000 units in their individual portfolios.

Hudecek observes that the Fourth Federal Reserve District's housing market is relatively stable compared to markets in other regions of the country. He notes that unstable market conditions most deeply affect the individuals with the least number of housing options. NCC's work with community development organizations is expected eventually to produce fair and affordable housing in all of the country's regions.

For more information about Neighborhood Capital Corporation, contact Bob Hudecek at 216/970-1610 or *NeighCapCorp@aol.com.* For information about Neighborhood Reinvestment Corporation or the NeighborWorks Multifamily Initiative, contact Frances Ferguson at *fferguson@nw.org* or visit *http://www.nw.org*.

Neighborhood Reinvestment Corp. Strengthens Local Nonprofits

Neighborhood Reinvestment Corporation is a national nonprofit organization established by Congress in 1978. Headquartered in Washington, D.C., and operating nine district offices across the United States, it works to increase the capacity of local nonprofit community-based organizations (CBOs) to revitalize lower-income neighborhoods. These efforts focus particularly on expanding and improving affordable-housing opportunities.

About 200 CBOs make up the NeighborWorks® network, founded by Neighborhood Reinvestment in the early 1990s. The NeighborWorks affiliation and chartering process grew out of the organization's belief that it was time to move beyond its original strategy of starting organizations along the neighborhood housing services model and to begin to support a wide range of CBO activity.

Neighborhood Reinvestment offers two types of financial assistance on a competitive basis—operating grants and real estate development and lending grants—to chartered NeighborWorks network members. Together with Neighborhood Housing Services of America and the national network of CBOs, Neighborhood Reinvestment offers the NeighborWorks revitalization services and educational programs, and it is known for its nationally recognized work in the field of homeownership.

The NeighborWorks Multifamily Initiative, a program established to promote excellence in the practice of multifamily housing, comprises 43 NeighborWorks organizations. According to Neighborhood Reinvestment, more than 25,000 affordable multifamily housing units are owned by NeighborWorks organizations, and more than 50 percent of residents in those communities are renters. The multifamily development significantly leverages Neighborhood Reinvestment capital, accounting for a valuable percentage of total investment.

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Community Development Workshops Slated for Cleveland

In June and September, the Federal Reserve Bank of Cleveland will host two workshops for financial service organization executives, managers, and board members involved in community development. The sessions, developed at the behest of the U.S. Treasury Department's CDFI Fund, will be conducted by Nate Dickerson of the Credit Institute for Economic Development.

"**Developing and Operating a Community Development Lending Program**" will be offered June 6-8, 2001. The three-day workshop will provide participants with the tools and skills necessary to design and run an effective community development lending program. Topics include determining the best loan products and services for the target community.

The second workshop, "**Developing Financial Projections**," will take place October 2-4, 2001 at the Cleveland Fed. The course will cover the concepts and tools used in projecting the financial statements of CDFIs, as well as issues related to preparing and assessing financial projections.

For more information on the workshops or to register, contact the Dickerson Knight Group at 718/624-4596 or visit *http://www.thinkdkg.com*.

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