Ninth District

Community

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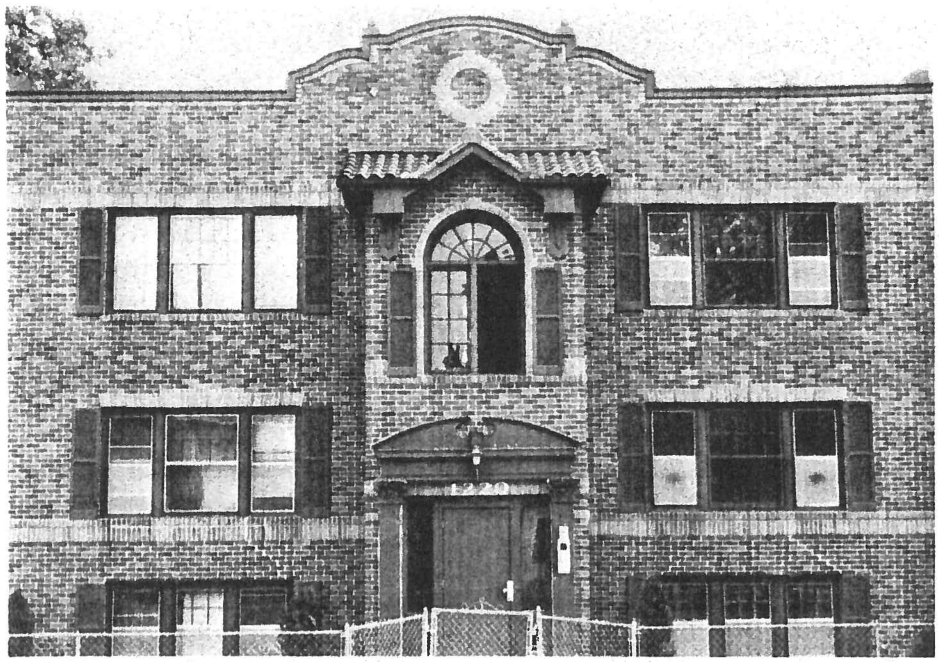
Number 2

1220 Morgan

Responding to the Neighborhood

There are many examples of innovative housing and business development in the Ninth District. In this article we focus on one rehabilitation project in Minneapolis and on one of the organizations that helped make it happen.



1220 Morgan Avenue, Minneapolis, after renovation by Northside Residents Redevelopment Council and Project for Pride in Living.

For the residents of Minneapolis' Morgan Avenue North, the building at 1220 Morgan was more than an eyesore.

Its neglected condition and unstable population hampered the neighbors' attempts to upgrade the street, and their fix-up requests to the landlord remained unanswered. The neighborhood residents decided to appeal to Northside Residents Redevelopment Council for help.

Northside Residents Redevelopment Council, or NRRC, is a neighborhood association serving the near north neighborhoods in Minneapolis. The group was formed in 1969 to meet federal requirements for citizen input into urban renewal and redevelopment projects and to give residents the ability to influence and direct the development of their community.

Over time, the limitations of its citizen participation role became apparent to NRRC. At the same time, there was an obvious and growing need for community-based housing development. So in 1983, NRRC entered the housing development business.

1220 Morgan: A Compelling Need

Normally, the NRRC board selects an available property for rehabilitation; but in the case of 1220 Morgan, the need was so compelling that NRRC sought out the owner and offered to buy the building. Because the building wasn't on the market, "we paid more for it than we might have under our usual procedures," says Jackie Cherryhomes, development specialist. "But," she continues, "we made a conscious decision to purchase because of the social benefits to the total community."

Jackie says that the building "was the filthiest I've ever seen" when she first visited it. But her past experience and practiced eye convinced her that the project was affordable and worth the effort. However, while NRRC was lining up the contractor and financing, the owner ceased all maintenance on the building and filled it with additional, transient tenants. Hence, although the building was structurally sound, it required extensive cleaning and extermination as well as renovation.

The 1220 Morgan renovation project was undertaken by a partnership of NRRC and Minneapolis-based nonprofit housing corporation, Project for Pride in Living (PPL). The partnership has been active in several north Minneapolis renovation projects. In a typical project, such as 1220 Morgan, actual construction work is done by PPL, while NRRC acts as property manager. Describing the successful partnership, Jackie says, "PPL manages the 2 x 4s and NRRC manages the people."

Although some buildings must be gutted, the scope of renovation

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work on 1220 Morgan was moderate, consisting mainly of thorough cleaning and decorating. Only the kitchens were gutted. The building was at least partially occupied during the work, which made some tasks, such as extermination, more difficult. Renovation began on the empty units and proceeded unit by unit throughout the building. Residents were moved out of or around the building as necessary.

Running the Numbers

NRRC does the initial financial projections for a project. Jackie says the first step is to make an on-site inspection of the property, which enables her to project the building's operating expenses and spot any obvious structural problems. Based on her inspection, and drawing from experience, she can make an initial estimate of the project's cost.

The next step, according to Jackie, is "to figure out how much of a subsidy we can reasonably get from the Minneapolis Community Development Agency (MCDA)." Although a public subsidy is necessary, NRRC seldom seeks the maximum amount available. Jackie explains that "because we can attract private financing, we don't want to be a drain on public resources. And it also makes our proposals very competitive when we apply for funds."

Some of you may be receiving *Community* for the first time. The first issue was published in April 1986 by the Federal Reserve Bank of Minneapolis community affairs staff.

To obtain copies of that issue or to make comments about *Community* contact:

Carolyn Line
Office of Public Information
Federal Reserve Bank of
Minneapolis
250 Marquette Avenue
Minneapolis, MN 55480

Or you can call (612) 340-2048.

Jackie Cherryhomes, *development specialist at NRRC, sees the cooperative housing model as one way to maintain affordable housing. Jackie, whose roots are in rural North Dakota, believes that it could work in smaller towns, where it may be that only the scale of housing needs, and not the needs themselves, differ from large cities.*

NRRC then figures out how much a deal might attract from private investors. In the past, NRRC has worked with local investment bankers to place limited partnership interests with private investors. Jackie notes that their projects have been investment quality because buildings are well-managed and maintain their value. Tax code changes will have an impact on this investment source; nevertheless, NRRC and PPL are committed to finding a way to continue funding projects without relying on the maximum available subsidy. The remainder of the development cost generally comes from a lender.

Financing 1220

The financial arrangements for the 1220 Morgan project were typical of all NRRC projects, which to date have been arranged as syndications. Each project requires some public money, which typically comes from MCDA. The projects have also attracted private investment, which is arranged through local investment bankers. And the balance is a loan, from a bank or insurance company, for example.

The total development cost of the nine-unit 1220 Morgan building was $350,000 compared to the building's post-rehab valuation of $265,000. A subsidy, in the form of a $179,904 loan from MCDA, supplemented the $89,000 mortgage loan arranged through Union Bank and Trust in Minneapolis. The remainder was placed with private investors.

The Community Within

Like other NRRC projects, the renewed 1220 was set up as a leasehold cooperative. The structure pyramids down from the building owner and manager (in this case the partnership), to the cooperative association leasing it, to the individual tenants with occupancy agreements. Tenants form an association, elect officers, and meet regularly to make decisions affecting their building. They also maintain the building's common areas on a rotating basis.

Prospective tenants for a new cooperative are screened by NRRC's rental service. NRRC's objective is to identify individuals who have the minimum skills necessary to live in a cooperative setting and who could benefit from additional training and encouragement. Tenants must also have at least one positive reference from a previous landlord, the financial ability to pay the damage deposit and the first month's rent, and commitment to the cooperative idea.

Those former residents who are not considered appropriate for the cooperative are referred to other housing. "Our goal is not to evict people," says Jackie, "but to make a project successful, residents need some living and social skills." In keeping with its goal of no displacement, NRRC helps tenants who are not staying on find new places to live. And Jackie adds that "95 percent of the residents were Northsiders before moving into our units."

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Community Development Corporations

Mobilizing Community Resources

Community development corporations (CDCs) were developed in the 1960s as a community response to local economic development problems. Today, CDCs are typically local associations of residents, businesspeople, or both, created to organize community resources such as land, labor, capital, or entrepreneurial talent to combat community problems. They might be designed to provide better housing, enhance educational and employment opportunities, attract new sources of capital, or otherwise promote the economic development or revitalization of local communities.

CDCs can be formed in several ways, and their exact nature will vary, depending on where or by whom they are formed. Our focus in this and upcoming articles is on bank holding company CDCs. Note also that national banks and, in some states, state-chartered banks can similarly participate in CDCs (see box, page 4).

A Bank Holding Company Option for Community Development

The Federal Reserve Board believes that bank holding companies, with their unique combination of financial and managerial resources, are particularly suited to play a meaningful and substantial role in responding to the economic and housing needs of disadvantaged communities. The CDC offers a bank holding company one option for helping address community problems. By establishing a CDC, a bank holding company broadens its ability to contribute as a corporate citizen to the welfare of its community.

A bank holding company CDC is a holding company subsidiary formed to address these needs. It may engage in certain otherwise prohibited activities that the Federal Reserve has determined are both closely related to banking and in the public interest. For example, a CDC can make loans and grants to other organizations involved in community development; make equity investments in small businesses and commercial development projects; and purchase, own, rehabilitate, construct, manage, or sell real property.

The CDC Must Have a Public Purpose

These powers are granted to a CDC on the condition that it meet certain requirements. First, the CDC must have a public purpose. That is, it must directly promote community welfare. While highly profitable projects are not foreclosed to CDCs (there is no profitability test), the project must have the direct result of benefiting low- to moderate-income persons. Second, the investment must not represent an undue risk to the banking organization.

A CDC may be either for-profit or nonprofit. Each structure has advantages. A for-profit CDC can return income to its parent holding company. In many cases, however, only nonprofit organizations are eligible for grant money from foundations and the government, and grants can be a valuable resource for a CDC. While the nonprofit CDC cannot return income to the holding company, it can reinvest earnings in new development projects, and many bank holding companies choose to retain CDC earnings in the subsidiary to fund future development activities. Some holding companies have both for-profit and nonprofit CDCs; occasionally, one is a subsidiary of the other.

Since CDCs are formed to benefit the community, many have community representatives on their board of directors. This is not required by the Federal Reserve. Still, successful projects usually have some mechanism for community input, and a number of CDCs have chosen to include members of the community on their boards for that reason.

The Federal Reserve requires no specific level of investment by the holding company in the CDC. The Board does, however, expect that the company will fund the CDC prudently, in accordance with safety and soundness considerations. Leveraged activities, for example, would normally require capital beyond that required for purely advisory activities.

CDC activities have been as diverse as the needs of their communities. Two rural CDCs have developed and operated housing. One developed a single-unit project and another, a multi-unit project for low- to moderate-income elderly in their communities. A Twin Cities CDC developed, in cooperation with the local YWCA, transitional housing for women. Other CDCs have been involved in housing rehabilitation, commercial strip revitalization, and job creation projects.

Management is Crucial

Not every CDC has been successful. Where CDCs have been ineffective, the most frequently cited problem is that personnel are inadequately trained in the special requirements of community development lending. Sometimes, too, projects have been started without thorough understanding of community issues and needs. Further, as in every organization, the man-

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This newsletter is designed primarily to assist financial institutions in the Ninth Federal Reserve District in developing creative responses to consumer issues and to the goals of the Community Reinvestment Act.

Produced by the Office of Public Information under the direction of Richard K. Einan, assistant vice president and community affairs officer, and Carolyn P. Line, community affairs coordinator.

COMMUNITY is available without charge from the Office of Public Information, Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota 55480 (telephone 612-340-2048).

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agement and staff capacity to achieve goals and objectives are crucial. When a bank holding company contemplates forming a CDC, it should be particularly attuned to the special nature of its proposed activities, and to the experience staff will bring to the venture.

Next time: A closer look at CDCs and applying to form a CDC.

For more information, contact:

Carolyn Line
Office of Public Information
Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, MN 55480
(612) 340-2048

James W. Lowell
Division of Consumer
and Community Affairs
Board of Governors of the
Federal Reserve System
Washington, DC 20551
(202) 452-3378

National banks, and where state law permits, state banks, can similarly participate in CDCs. For information, contact the Comptroller of the Currency's Customer and Industry Affairs Division at (202) 287-4169, your state banking supervisor, or Carolyn Line at (612) 340-2048.

S&Ls can contact the following individuals to discuss community investment opportunities.

Michigan:	*Mr. Michael Thomas* *Federal Home Loan Bank of Indianapolis* *1350 Merchants Plaza, South Tower* *115 W. Washington Street* *Indianapolis, IN 46204*
Wisconsin:	*Mr. Charles Hill* *Executive Vice President* *Federal Home Loan Bank of Chicago* *111 E. Wacker Drive, Suite 800* *Chicago, IL 60601*
Minnesota, North Dakota, South Dakota:	*Mr. Gayle Buhl* *Federal Home Loan Bank of Des Moines* *907 Walnut Street* *Des Moines, IA 50309*
Montana:	*Ms. Beverly Hoskin* *Housing Programs Coordinator* *Federal Home Loan Bank of Seattle* *1501 Fourth Avenue* *Seattle, WA 98101-1693*

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A Training Program Is Vital

Since most new tenants have not had a cooperative living experience, a year-long training program prepares them for assuming cooperative living responsibilities. During the monthly training meetings, tenants learn how to prepare a budget, arrange maintenance schedules, and generally, to make decisions affecting their building. Jackie explains that the monthly sessions are necessary to give people time to get accustomed to the cooperative arrangement. "We have very independent people. Showing them the benefits of working with each other can be a real challenge," Jackie observes.

Each NRRC building has a "shakedown" period of about 18 months before it stabilizes into a community. Even with the selection process in place, there is some initial turnover. Eventually, buildings seem to attract similar types of residents: single-parent households, single people, or larger families, for example. After about a year and a half, Jackie says that "a property establishes its own personality." And at that point, the building's "community" becomes remarkably stable.

Rents Are Affordable, Not Subsidized

Although designed to be affordable, rents are not subsidized in any NRRC properties. At 1220 Morgan, a one-bedroom unit rents for $310 per month, and a two-bedroom unit for $350, including heat. These rents reflect the low end of the Twin Cities rental market. At this writing, the building has 100 percent occupancy and is largely settled by small single-parent families who will attest to the project's success.

Since it became a housing developer, NRRC has completed over 80 units of renovated cooperative housing, and in the process, has not only reclaimed deteriorating housing, but has generated benefits that extend from the individual resident to the community at large. Investors benefit, the city has a more valuable building on the tax rolls, and the neighborhood has rid itself of an eyesore.

But perhaps most importantly, a community has been created within the community using the cooperative model. Through the training process, residents both develop new skills and build a sense of cooperation within the building that extends to the larger community outside.

And that is at the heart of NRRC's mission—to help make the northside a viable and thriving community. According to Richard Parker, NRRC's executive director, they have "begun an all-out effort to change the face and image of the new northside." He continues, "If responsible Northsiders stand together, we can make this dream a reality."

For more information, contact:

Jackie Cherryhomes
Northside Residents
Redevelopment Council
1040 Plymouth Avenue North
Minneapolis, MN 55411
(612) 348-6849