



FASCINATING FINDINGS

# NeighborWorks® Revolving Loan Funds: The Power of High-Energy Seed Money

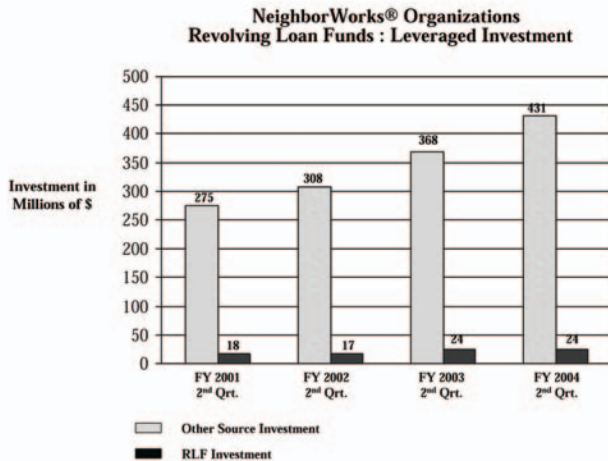
BY ESMAIL BAKU

In terms of their leveraging power, the revolving loan funds (RLFs) of local NeighborWorks® organizations play a critical factor in their affordable housing and community

NeighborWorks® organizations in utilizing their own investment funds.

## Uses and Sources

During FY 2003 (October 2002-September 2003), NeighborWorks® RLF investment amounted to \$113 million. The bulk of RLF investment, 69 percent, was related to NeighborWorks® organizations' homeownership-promotion services, followed by single-family rehabs, at 20 percent. Another 6 percent was invested in multifamily and mutual housing activities; the remaining 5 percent was invested in neighborhood economic and commercial real estate development, neighborhood capital improvement or infrastructure development, and other services.

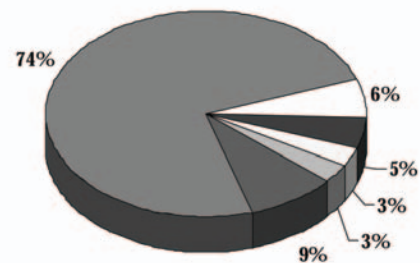


revitalization efforts. The RLFs' key role is to lead the capital market in NeighborWorks® service areas by attracting investment from other sources.

Data from the most recently completed quarterly survey, January-March 2004, show (as in the accompanying chart) that NeighborWorks® RLF second-quarter investment over the last four years has increased from \$18 million in 2001 to \$24 million in 2004. During the same period, second-quarter investment from other sources in NeighborWorks® organizations' housing and community revitalization activities increased from \$275 million to \$431 million.

That is, during the second quarter of FY 2001, for every dollar of RLF investment an additional \$15 was leveraged from other sources. In the second quarter of 2004, the leveraging effect of RLFs increased to \$18. Such an increase can be interpreted as a measure of increased efficiency by

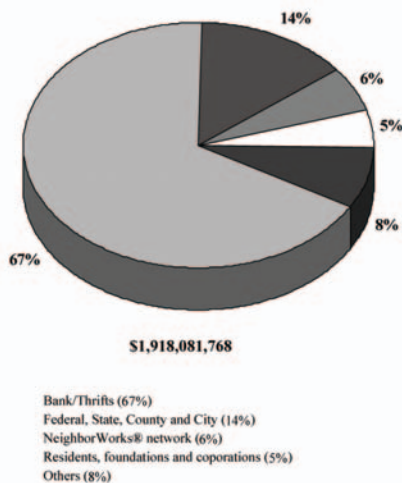
**NeighborWorks® Organizations  
Direct Investment by Programmatic Impact  
FY 2003**



**\$1,918,081,768**

Home-Ownership Program (74%)  
Rehab 1-4 Units (3%)  
Rehab 5+ Units (9%)  
Special Projects (6%)  
Mutual Housing Association (5%)  
Neighborhood Commercial, Capital Improvements and others (3%)

**NeighborWorks® Organizations**  
**Direct Investment by Source**  
 FY 2003



In the same year, total investment generated by NeighborWorks® organizations, including both their own RLFs and investment by other sources, reached \$1.9 billion. Distribution of the total, as illustrated in the accompanying pie chart (Programmatic Impact), shows 74 percent was related to homeownership promotion activities, 14 percent to multifamily and mutual housing, 3 percent to single-family rehab, and the remaining 9 percent to other service activities.

The bulk of the sources of the \$1.9 billion total, as the accompanying pie chart (Source) shows, were private lending institutions, accounting for 67 percent. The public sector, including federal, state, county and city governments, accounted for 14 percent. The \$113 million in NeighborWorks® organizations' RLF investments accounted for 6 percent.

It is important to note the critical role of the network's relatively small RLF investment (\$113 million) in creating a market environment conducive to private lenders investing \$1.3 billion.

It is also important to note how the public sector's share has declined quite dramatically over time. In 1992, for instance, of the \$200 million total investment generated by NeighborWorks® organizations in their service areas, 40 percent (\$80 million) came from the public sector, while

27 percent (\$54 million) came from private lenders. By FY 2003, the sectors' participation levels had more than reversed. The public sector accounted for 14 percent, private lenders 67 percent.

**The Trends**

NeighborWorks® organizations' revolving loan funds play a critical and a necessary role in creating a favorable environment to attract investment from other sources. A 1992-2003 trend analysis of NeighborWorks® organizations programmatic services shows, first, a tremendous increase in the leveraging ratio of the RLFs.

Second, it shows a steady and quite remarkable decline in the public sector's participation; whereas, in contrast, investment from private lenders has grown to surpass the billion-dollar level.

Is this not clear testimony to the remarkable effectiveness and efficiency of NeighborWorks® organizations in utilizing private market mechanisms in their affordable housing and community revitalization efforts? It certainly is. ■

*Esmail Baku (ebaku@nw.org) is director of research with Neighborhood Reinvestment.*