



ISSUES AND IDEAS

Thinking Outside the Box:

Is the Community Development Movement Losing Momentum?

In March, the Development Training Institute of Baltimore, Maryland, hosted a one-day forum at the Neighborhood Funders Group conference in San Francisco on “Thinking Outside the Box: Is the Community Development Movement Losing Momentum?” Community development practitioners and foundation staff explored such questions as whether neighborhood development strategies are out of date, how smart growth and regional solutions are being addressed, and what large-scale clearance and new construction projects have taught.

The principal speakers were Joseph B. McNeely, president, Development Training Institute; Arabella Martinez, CEO, Spanish Speaking Unity Council; and Robert Jaquay, associate director, The George Gund Foundation.



LEADERSHIP DEVELOPMENT TRAINER

DEVELOPMENT TRAINING INSTITUTE,
BALTIMORE, MARYLAND

Whatever Happened to Neighborhood Revitalization?

BY JOSEPH B. MCNEELY

At the Development Training Institute, we believe the very future of the community-based development movement depends on the ability of community groups and their supporters to articulate compelling neighborhood revitalization strategies that turn distressed communities into competitive areas of private business and consumer investment.

Where community development corporations have succeeded in producing a consistent volume of projects, they are being asked to prove their impact. Where CDCs have lost the momentum of scale or project development, they are being asked to justify their existence.

In either case, the answer lies in presenting a compelling strategy for a multiyear investment plan that leads to sustainable participation in the conventional economy. Such a strategy requires the ability to articulate market-savvy approaches – for different communities in different competitive positions in a metropolitan economy – to an ultimately sustainable community.

A Lost Art?

In the 1970s, those concerned with neighborhoods and poverty in America's cities pursued a robust, two-pronged effort. On the one hand were affordable housing, job training, education improvements, and other services to help families in poverty achieve an acceptable quality of life and the opportunity for improvement and self-sufficiency. On the other were neighborhood revitalization programs and investments to restore a sustainable

economic dynamic to the community and improve the residents' quality of life. Through community organizing, community-based development, and advocacy planning, great progress was made on both agendas. Private efforts were stimulated through pressure from grassroots leaders in communities of every economic profile.

Today many active neighborhood development organizations cannot articulate a strategy more detailed than "providing affordable housing" or "improving conditions." Groups measure progress in short-term goals of units of affordable housing, jobs created, commercial space improved, crime rates reduced, etc.

How did we get from broad strategies of restoring neighborhood economic dynamics to project-specific outcomes?

The Reagan Effect

In the early '80s, President Reagan and a host of conservative voices at the state level shut down government programs, castigated private efforts, and lionized the poor themselves. Unable to stop the cuts, national policy activists banded together and advocated intensive targeting of the remaining resources to those most in need. When the Department of Housing and Urban Development budget, for example, was cut to a quarter of its previous size, there was no question but that the resources had to go to those living in crisis.

Private philanthropy also began to reshape its programs. At first, foundations were overwhelmed by requests to meet basic human needs; then, they shifted their giving and then began their own counter-offensive. They brought back a non-ideological focus on poverty.

In 1983, for example, the Rockefeller Foundation committed \$65 million to a multiyear program of research, policy analysis and formulation, and local action. Foundations' policy research, and the work of other institutions supported by them, documented a change in the form of poverty in America. The change first appeared in the 1970 Census, and was more dramatically seen in the 1980 Census.

Poverty in the early '60s had been rural, white and primarily among the elderly and young. By 1980, poverty had become urban, minority, children and young female-headed households. Moreover, the poor no longer were dispersed, as had been the case earlier, but were becoming more and more concentrated in inner-city census tracts. In them, an overwhelming percentage of people were in poverty, and, increasingly, they were isolated from the mainstream economy and opportunity institutions.

Yet at the very moment when there should have been a national response to this issue of crisis proportions, the federal government, instead, was cutting domestic spending. Local government was seeking to survive a fiscal crisis, and the mainstream economy was concerned with economic recovery – a recovery later driven by a frenzy of conspicuous consumption.

Focusing on Families

When policy activists finally began to make headway on the national scene, broad support came in response to the picture of massive homelessness. It seemed that everyone in America had been panhandled and was shocked to see families on the street. Community groups, religious institutions, charities and foundations, which had been directing their resources to "basic human needs," were joined by national leaders in using this visible image to mobilize the public. First came more investment in homeless shelters (the McKinney Act), and then a new federal housing program, as a result of the National Housing Task Force. A recovering economy allowed the Clinton administration and ebullient state governments to extend and expand programs.

However, since the effort was being driven by the specter of horrible individual consequences of poverty, the programs tended to emphasize only the family-helping agenda. Neighborhood revitalization was either postponed or lost in the shuffle. In fact, from fiscal 1982 to 1999, the HUD budget did not include neighborhoods or neighborhood revitalization among its goals, even when affordable housing was resurging. Affordable housing had once been seen as both a service to families and an investment in neighborhood real estate dynamics. Now it was simply a welfare commodity.

The loss of a neighborhood-revitalization perspective means not only that almost no programs are directed to neighborhood revitalization, but also that the dynamics of neighborhood deterioration and revitalization are not being taken into account in other programs. For example, the highly successful Hope VI program is demolishing high-rise, concentrated public housing projects at a dramatic pace. In their place, mixed-income, mixed-use communities are being built that contain affordable housing in a very sustainable mix – a revitalized neighborhood in itself.

But the newly built communities contain well under half the units of the old projects. To be sure, the families who left and did not come back were given Section 8 certificates, but no one traced the neighborhoods into which they moved, or provided support to them or their new neighborhoods for revitalizing those communities.

The time has come to bring back a neighborhood-revitalization perspective, with supportive strategies and programs. The outer-ring neighborhoods of our cities and the inner-ring suburbs are both at risk of repeating the dynamics of concentrating and isolating the poor that cost us so many inner-city neighborhoods in the '70s and '80s

There is anecdotal evidence suggesting that many moved into already distressed neighborhoods, with a precipitously rising concentration of poor families. Slum landlords with more exploitive practices soon increased their level of activity in these neighborhoods, providing cheap but substandard housing that further depressed the economic dynamics of the neighborhoods.

Restoring a Neighborhood Focus

The time has come to bring back a neighborhood-revitalization perspective, with supportive strategies and programs. The outer-ring neighborhoods of our cities and the inner-ring suburbs are both at risk of repeating the dynamics of concentrating and isolating the poor that cost us so many inner-city neighborhoods in the '70s and '80s.

Neighborhood revitalization means looking at the place as well as the people; it means looking for a sustainable economic dynamic. Revitalization means the private sector, consumers and homeowners are attracted to invest. Equitable revitalization means the community cares for the very poor. Sustainable revitalization means as communities and populations change naturally, the neighborhood attracts a mixed-income population.

Revitalization, however, requires a regional context that understands the competitive position of the neighborhood within the whole metropolitan area, including high-growth areas outside the city. A revitalization plan builds from present assets in a distressed situation, through multiyear strategic investment, to a sustainable economic dynamic. The plan may take a decade and use public resources in leveraged projects, but it must be market-savvy, with an eye on long-term, private-sector behavior.

The onus rests first with us who are active in community revitalization to articulate a clear approach that blends both concern for distressed families and concern for distressed communities. We need an image for our communities that is not a repeat of the failed policies of serving but concen-

trating the poor and affordable housing. We should learn from the mistakes of loading certain neighborhoods with a disproportionate share of affordable housing, or glorifying "neighborhood turnaround" through wholesale displacement of the poor by hyperinflation of real estate values. Instead, we want vibrant neighborhoods of diverse cultures, economic groups and interests.

Revitalization Goals

Can we formulate goals for neighborhood revitalization that embrace both revitalization and assistance to those in need? I believe we can, but is not necessarily easy.

In contemporary American real estate advertising, for example, we have no images of sustainable suburban communities that are not homogeneous in class and lifestyle. The role and sustainability of cities in a sprawling regional economy are changing. The proof that multibillion-dollar stadiums and convention centers will yield sustainable private-sector investment may be no clearer than the effectiveness of neighborhood investment, but stadiums and convention centers are a lot closer to mainstream business interests. We have a big challenge – as advocates for neighborhood revitalization – to tell an equally compelling story to conventional private-sector audiences.

Moreover, composing a neighborhood-revitalization strategy is an inherently difficult process. It requires an intimate knowledge of the assets of an immediate community and a keen appreciation of metropolitan dynamics. There is no simple strategy formulation that fits all neighborhoods, or even an agreement on typologies of neighborhoods and appropriate strategies.

Neighborhood strategies also force us to answer questions society has sought to avoid for decades:

- What is the appropriate balance between a middle-class sustainable community and adequate care and treatment for the poor?



- ▶ What is the sustainable mix of different economic groups?
- ▶ How do you develop a revitalization and reinvestment strategy in real estate market that continues to demonstrate racial barriers and other discriminatory forces?
- ▶ How do we balance incremental rehabilitation and preservation of the historic fabric and architecture of a community with the conventional, private-sector penchant for large-scale clearance and rebuilding?
- ▶ Finally, how can neighborhoods be asked to articulate a cogent strategy for themselves when there is hardly a city that can articulate a cogent city-building strategy for its urban center as a whole?

An Invitation

I put forth this essay to invite response and initiate discussion on the future of community development.



MULTISERVICE COMMUNITY
DEVELOPMENT CORPORATION

SPANISH SPEAKING UNITY COUNCIL,
OAKLAND, CALIFORNIA

It's All About Social and Economic Justice

BY ARABELLA MARTINEZ

In thinking about “Is the Community Development Movement Losing Momentum?” I was struck by the contradiction between the question and the reality. Never in the history of this nation have there been so many community-based organizations focused on revitalizing their neighborhoods, and there is substantial evidence that community development corporations are achieving success throughout the nation, as most recently documented by Neighborhood Reinvestment.

It seems to me the question is not whether the community development movement has lost momentum, but whether there is a clear understanding of the basis and rationale of the community development movement among funders.

DTI is conducting a series of discussions looking at the next 20 years of community development and the future of our neighborhoods and cities. While many issues remain the same, the industry and the dynamics of cities have changed since 1982.

DTI expects to collect and publish a variety of informed opinion in celebration of the 20th anniversary of the first class of the National Internship in Community Economic Development, now the Bank of America Leadership Academy. We would love to hear your reactions to the issues raised here, or any other thoughts you would like to contribute on the future of community development. You may contact DTI at www.dtinational.org.

Joseph B. McNeely is president, Development Training Institute, Baltimore, Maryland.

Government's Traditional Role

A little history might help. Prior to the 1960s, government's policies and programs to address poverty focused on providing some income support, food, housing and health subsidies. These programs focused on helping individuals and families, not neighborhoods. While they kept people fed and housed (and that is very important), they were not designed to get people out of poverty, nor to improve their lives.

What became clear in the 1960s, a time of economic prosperity, was that whole groups of people, particularly minorities in central cities and rural backwaters, were not benefiting from this prosperity. The same, of course, can be said today, as attested to by the growing disparity of wealth and income in the United States.

Whole areas of the nation in the '60s, like the South Bronx and other central cities, became economic wastelands, as whole industries bailed out and left empty factories and heavy unemployment. Whole groups of people, mostly white, also bailed out of the cities. They were encouraged by transportation policies that built freeways to the suburbs and left public transit out in the cold, and by tax policies that provided massive housing subsidies to those who could afford to buy a house in the suburbs.

As the march to the suburbs continued, institutions that had provided a variety of services and

amenities, and that were the backbone of the cities, abandoned them too. Even churches moved, as they followed their congregations. What was left, in many cities, were blocks and blocks of poor people living in neighborhoods that were physically and economically devastated, and that also lacked hope. Almost no one had a job, and there were no escape routes.

Special Impact Areas

Then in the late 1960s, Sens. Robert Kennedy and Jacob Javits created the Title VII Special Impact Program of the Economic Opportunity Act. Title VII focused on poor neighborhoods, as opposed to poor people.

Special Impact Program regulations in 1972 recognized these realities, stating: “Special Impact Areas face severe shortages of income, jobs, skilled human resources, and, perhaps, most important, viable institutions responsive to the needs of the impact-area residents . . . The ultimate goal of the Special Impact Program is . . . to achieve parity between the impact areas and the areas surrounding them, to correct the tremendous imbalance in institutional capacity, income, jobs and human resources.” Please note this description does not mention poor people, rather it talks about special impact areas, or neighborhoods, with severe economic shortages and unresponsive institutions.

The role of community development corporations was codified in the regulations as follows: “Special impact areas need a wide range of institutions, including planning and coordinating institutions, capital-providing and debt-providing institutions, employment-generating and wage-increasing institutions.” The regulations went on to say that the key institution was a community development corporation, which not only would play all those roles, but also be the central catalytic force in the community.

That is a tall order for any institution, public or private, and certainly for a community-based organization. But there are CDCs throughout the nation – including the Spanish Speaking Unity Council – that have played many of these roles and become the central catalytic force in their communities.

CDCs in Action

Building community institutions that have the capacity to undertake the variety of roles enunciated in the Title VII regulations takes time and money, for planning, for predevelopment and development costs, and for investment in capacity building and training. There is no short cut and no magic time frame. There is no one cookie-cutter model.

In poor communities, reversing the downward

spiral of physical and economic deterioration and the loss of hope and opportunities requires a full-court press. The effort must include addressing mean and dirty streets, nuisance businesses, unsafe and unkempt parks, and the failure of public institutions to provide equitable services and resources. It requires advocacy, direct services and programs to help families build their educational, vocational and financial assets. And it requires major physical improvements, a focus on creating jobs through helping existing businesses to expand and attracting new businesses, and expanding affordable housing.

CDCs all over the nation have undertaken these jobs, and they have become better with time. They have built their capacity to undertake complex projects of scale. And they have acquired a sophistication in development, financing and negotiating skills that matches their much larger and private partners.

Revitalizing Communities

As good as they have become, CDCs still cannot do everything that needs to be done to revitalize communities. Therefore, they need to be part of the civic and social fabric of the community, to collaborate with a multitude of other community agencies, and to build the kinds of public/private partnerships that have the power and resources to create livable and caring communities.

Revitalizing communities is not easy, but it can be done, if there are a vision and a strategy for achieving it. Revitalization takes dedication and perseverance, and of course, money and time. But most of all, it takes a commitment to social and economic justice, because that is what community development is all about.

Now, if there is a loss of momentum in the community development movement, it is not among CDCs or CDC practitioners. In contrast, they have stayed the course through years of changes in public policy, economic conditions, political leadership at all levels, and funding priorities.

There may be a loss of momentum among some funders, but those – such as Neighborhood Reinvestment – that have stayed the course and invested in building institutions, as opposed to building projects, now are reaping the benefits of seeing poor communities transformed into healthy neighborhoods. These are neighborhoods where children and their families can remain, instead of fleeing to the suburbs.

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COMMUNITY DEVELOPMENT GRANTMAKER
THE GEORGE GUND FOUNDATION,
CLEVELAND, OHIO

Stimulating Revitalization Through Strategic Investments

BY ROBERT JAQUAY

A few months ago, I happened to review the Development Training Institute’s well-crafted video, *A History of Community Development Policy in America*. In it, Joe McNeely’s narration effectively places community development work within the broader context of social change and federal government action in America over the past century.

I believe that the credibility of his challenge to us now – for articulating a compelling, market-based case for renewed, long-term investment in community development – lies in his understanding of the movement’s history and his long-range view toward the future. The challenge is both timely and closely on point to where we currently are in Cleveland.

Numerous Cleveland grantmakers are present today, but our colleague Jay Talbot, the veteran program officer from the Cleveland Foundation, could particularly speak on this topic. He has been a key figure throughout the decade-long experience I am about to relate.

In Cleveland, our situation is clearly illustrated by our local intermediary, Neighborhood Progress Inc. Though far from The Gund Foundation’s only grantee in the community development field, it certainly is Gund’s largest and, arguably, its most important community development commitment.

Creation of NPI

NPI, as the intermediary is known locally, was created in 1988 to pool disparate resources for a coordinated, strategic, scaled approach to Cleveland’s neighborhoods. The area’s corporate community, Cleveland city government, local foundations, and the dozens of community development corporations then in existence were significantly engaged in the effort. (Not surprisingly, among the city’s CDCs since then have been numerous mergers, as well as both closures and new, start-ups. Today, dozens of CDCs exist in Cleveland.)

Cleveland CDCs, of course, are not uniform in style, focus or capacity. The best combine a strong

grassroots base of support, sophisticated community-organizing capability and the skill to package complex real estate transactions and public infrastructure improvements.

NPI, in order to achieve its strategic goals – not the least of which is scale – while serving the full range of CDCs in Cleveland, offers a wide array of predevelopment and “gap” financing products. It advises CDCs on, or, if necessary, directly packages and manages large-scale housing and commercial developments; and provides substantial, ongoing operating support to CDCs in a manner that encourages both planning and targeting of resources. NPI also conducts a comprehensive training program designed to improve the effectiveness of CDCs, their board members, executive management, and staff. (Details: www.neighborhoodprogress.org.)

Since NPI’s inception, both the Cleveland Foundation and the George Gund Foundation have been significant financial supporters. Each currently grants NPI at least \$1 million annually for overall support of the organization. Moreover, each foundation has committed additional millions of dollars in program-related investments. In recent years, a newer Cleveland philanthropy, the Mandel Foundation, has also provided NPI with generous support for organizational development within the CDC network.

NPI’s 10-Year Achievements

In 2001, the three foundations collectively engaged a consultant, OMG Center for Collaborative Learning in Philadelphia, to assess progress that has been made and to work with NPI to frame a convincing case for renewal of existing philanthropic support and expansion of available resources through involvement of new partners.

OMG found that NPI over the past decade had adhered to the Cleveland community’s consensus approach for neighborhood revitalization, impressively resulting in:

- A system for supporting community development that has become larger and stronger in recent years. CDCs that have received NPI general financial support and capacity-building assistance have made measurable gains in production as well as organizational and financial health.
- An historic increase in residential development activity, largely brought about by the network of CDCs that NPI has worked to develop, and targeted within Cleveland’s “at-risk” neighborhoods.

Cleveland has gone from virtually no new housing starts before 1990 to a steady annual production that accounts for a nearly 10 percent share of new units in the Northeast Ohio housing market. Also, Cleveland experienced a lower population movement from the central city to its suburbs during the 1990s than in any other decade going back to the 1920s.)

- ▶ A stronger housing market overall, as demonstrated by price appreciation for owner-occupied housing within the city that outpaced most suburbs in the county over the same period. (Though not in the OMG report, my own observations on the tremendous success of Cleveland's approach to neighborhood revitalization: Cleveland has gone from virtually no new housing starts before 1990 to a steady annual production that accounts for a nearly 10 percent share of new units in the Northeast Ohio housing market. Also, Cleveland experienced a lower population movement from the central city to its suburbs during the 1990s than in any other decade going back to the 1920s.)

Clearly, NPI has contributed much toward the revival of Cleveland's central-city housing market, which is measurably improved. Yet, the city's housing market still remains fragile. For consolidation of gains to date and further restoration of positive market forces, much remains to be accomplished in the coming years.

Maintaining Momentum

Given the available documentation on the market effects of Cleveland's community development strategy, the challenge to maintaining forward momentum is not so much "articulation," in Joe McNeely's phrase, as it is ways and means.

Renewal of support, obviously, is key to at least maintaining the upward trajectory of neighborhood development in Cleveland. The three principal Cleveland philanthropies, Cleveland, Gund and Mandel, currently supporting NPI are working enthusiastically toward renewal of core support for the full range of NPI's activities.

Moreover, they hope for the same sort of renewed commitment from local government and long-time corporate backers. But time moves on. There is a new mayor and city council leadership in Cleveland. Over the past decade, a whole new generation of corporate CEOs has risen. With so many community leaders

hearing what to us is a request for renewed support as an entirely fresh appeal, the market-based arguments that Joe urges us all to develop are critical.

Renewed support from these many sources is not yet assured and will not be easy, but, perhaps, it is more straightforward than the equally important task adding new sources of funding to the mix.

Numerous family and hospital-conversion foundations have been established in the Cleveland area in recent years. Many are just coming around to the idea of placed-based grantmaking. There are, perhaps, perceptions that funding NPI and the community development network in Cleveland is territory already covered, or that large foundations dominate the agenda to an extent that preempts others from creative contributions.

Similarly, a number of national philanthropic organizations are reexamining neighborhood grantmaking from many different angles besides the successful, yet no longer "pilot," approach taken in Cleveland. We all can list notable examples. Mine includes the long-time and recently renewed National Community Development Initiative, the Ford Foundation's grantmaking that promotes asset building for individuals and families, the Annie E. Casey Foundation's examination of ways to link betterment of place with family success.

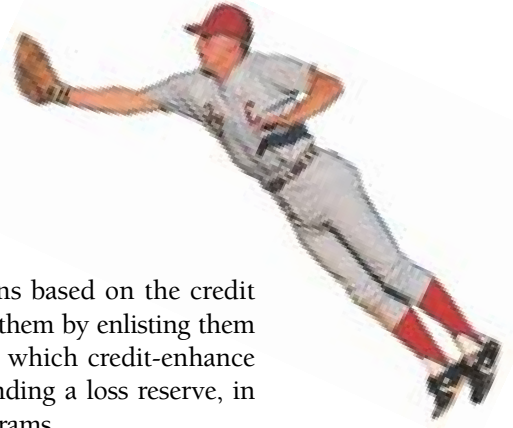
Cleveland's Challenge

Cleveland's challenge may well be to create an environment that balances achievement of the long-held objectives of housing and commercial development with other, more-comprehensive approaches. This would provide room for additional funders to participate on their own terms and, at the same time, bolster ongoing efforts and deepen impact.

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For the CDFI Industry, It's a Whole New Ball Game



BY CHARLES D. TANSEY

About a year and a half ago, a major bank came to Washington complaining about the cost of the Small Business Administration's 7(a) loan guarantee program.

The bank said it had found a way to cut the cost of making and servicing small business loans by more than 90 percent, and that working with the SBA was no longer as attractive as it once had been. Indeed, the bank said, originating and servicing loans under the SBA 7(a) program cost twice as much. The cost differential was so pronounced that the bank would willingly bypass the SBA's 75 percent loan guarantee – as well as access to the SBA's highly lucrative secondary market for 7(a) loans.

The event is worth mentioning for a variety of reasons:

One: The SBA generates between \$2.5 billion and \$3 billion a year in loans to minority and women-owned businesses – loans that would not be made, by definition, without the benefit of the guarantee.

Two: This particular bank was a major lender to these constituencies nationally.

Three: This was a large, preferred lender, which meant it already was using the most streamlined and cost-effective program for making loans at the SBA.

Four: Two other major national banks already had registered similar complaints for similar reasons.

A Sea Change

What these banks were doing represented a sea change in the way banks underwrite and service small business loans – a change that has a profound impact on the way community development financial institutions (CDFIs) and other gap lenders serve their constituencies – particularly in down economic markets.

What was this bank doing?

First, it developed its own credit-scoring models.

Second, it mass mailed loan applications at the rate of a million or so mailings a month.

Third, it booked the loans based on the credit scores and credit-enhanced them by enlisting them in capital-access programs, which credit-enhance small business loans by funding a loss reserve, in states that provide such programs.

To be sure, the bank lost the SBA guarantee and the liquidity and profitability of the SBA's secondary market. But the substantial benefits of the secondary market were more than made up by eliminating their cost of origination and underwriting.

Here's a simplified model of what the economics looked like:

In the traditional format, if a bank made a loan at, say, 8 percent, it would pay 2 percent for its funding cost, 3 percent for its underwriting and servicing costs, and 1 percent for its charge-offs, which would leave a 2 percent pre-tax profit.

Under the new, credit-scored, capital-access programs, however, the bank was able to reduce its 3 percent underwriting and servicing costs to 0.3 percent. This freed up 2.7 percent for a 150 percent increase in pre-tax profit – or, more intriguing – a significant increase in allowable credit risk.

To be sure, the bank had to have complete confidence in its credit-scoring system. But, even if it turned out to be inaccurate, there still was plenty of cushion in that 2.7 percent to cover a multitude of mistakes. In fact, the cushion could allow the bank a dramatic expansion in the number of businesses gaining access to credit.

The development was absolutely brilliant. If you were a bank, subject to the combined pressures of earnings-per-share expectations and regulatory constraints, and you wanted to expand your markets, you likely would do exactly the same.

The Down Side

But wait a minute – has anything been lost here? Yes, one thing in particular – contact with the customer.

Here, for the first time since the age of Cosimo de Medici, there is no need to actually know your customer – no market analysis, no walking the plant

floor, no kicking tires. You simply lend on the basis of how the business owner has managed his or her personal finances over time. You book the loan, and then you work the averages of how much of what kind of risk you want in your portfolio.

Forget It's a Wonderful Life and the "Bedford Falls Building and Loan." The traditional form of lending is simply too expensive for the high-volume, conventional lender. "George Bailey's" been retired.

Is this a good thing? By and large, yes. A lot more people are getting loans today than a decade ago – and at higher levels of what has traditionally passed for credit risk. But there's another side too – one that should be of particular concern to the CDFI industry, federal credit agencies, and the community and economic development sector generally.

A couple years ago, the PriceWaterhouse Coopers Endowment came out with a report by Tom Stanton, called Credit Scoring and Loan Scoring: Tools for Improved Management of Federal Credit Programs.

The message was simple: As conventional lenders get more accurate with their credit scoring, they will get much better at cherry-picking. The result is that the risk profile of loan portfolios of gap lenders like us will relentlessly increase. As conventional markets dip into the high end of our market, our focus will be pushed increasingly into tougher, more-costly credit.

Focusing on Need

No problem – this is our job. Indeed, in their own efficient way, the banks are helping us focus on where the need is the greatest. But we've got to go in with our eyes open – particularly in the context of an economic down cycle.

We all are painfully aware that the constituencies we serve are the last to gain the benefits of an economic expansion and the first to lose in an economic downturn.

What we do necessarily requires more knowledge of our borrowers, more contact, and more discipline than in the conventional lending and investment sectors. And not just in originating loans for those who historically have been unable to get them. We are likely to see much more required of us after the loan has been made, as well.

The CDFI industry is all about giving everyone a first chance. But America is famous, too, for giving people a second chance. Our financial willingness to promote risk taking, our elevation of the school of hard knocks as a cultural icon, and our profound understanding of the benefits of learning by experience – all are underpinnings of a broader economy that is unparalleled in growth and innovation.

Now, under the new way of making loans, what will "giving a second chance" look like? How does the sea change in the cost structure of loan making play out in the context of helping delinquent or defaulted borrowers?

Large corporations rely on a range of investment bankers, consultants and lawyers for crucial advice. Small businesses and consumers traditionally have relied on local branch bank managers. But in the new world of centralized decision making, this is a diminishing option – particularly in many neighborhoods the CDFI industry serves.

We can't be sure how the credit-scoring mechanisms have been or will be adjusted to accommodate loan applicants who have missed payments or otherwise faltered as we move further into this down cycle. Nor do we know how committed conventional lenders will be to the guidance and workout functions, going forward.

However, we know that assistance of this sort is even more expensive than originating and underwriting. If you're running a bank, you have to ask yourself: What's better for the bank, its depositors and shareholders – to spend thousands of dollars helping a defaulted borrower work through the borrower's problems, or to sell the loan at a loss, write it off, and be done with it as soon as possible? Oh, and you'd better make the right decision. Both regulators and investment analysts work with comparative ratios across your banking peers; you don't want to seem a laggard in ratios that reflect credit guidance and workout activity.

Be Prepared

Many banks likely will find that writing off defaulted loans without further involvement has become part of the new equation. As a consequence, a lot more credit guidance and workout activity likely will fall to our industry and other gap lenders like us.

We'd better find a way to be prepared.

Many of us remember the 1991 recession in New England and the mass closure of financial institutions. Not only were people unable to get a first chance, but also many existing businesses couldn't get a second chance. They were unable to expand their credit lines, refinance, or otherwise support their existing operations. Banks simply pulled back, and the only places for small businesses to go were nonprofits and the public sector.

Neither sector was particularly well-prepared. Available human and financial resources were clearly inadequate, and the sectors' fragmented and inconsistent nature also contributed to the weakness of the response. In addition, inefficient use of resources and



absence of appropriate support mechanisms – like an active secondary market – also were obstacles.

For all that, however, some actions were worthy of note.

History's Lessons

In several New England states, surviving banks together created community development corporations (CDCs) that were designed to provide better first and second chances for constituencies affected by the downturn. The CDCs, for example, could book loans the banks could not, due to portfolio and regulatory constraints. Through the creation of the CDCs, the banks were able to provide critical financing to the communities they served.

In another instance, the SBA, under the New England Recovery Act, sent teams of SBA staff to FDIC warehouses. There, they pored over credit files of closed institutions for loans the SBA could help work out and provide loan guarantees for. This intensive footwork resulted in loans to a large number of small businesses that had been “orphaned” by their banks. Taken together, the loans had a significant impact on the small business community in several states.

Both actions were very positive steps that highlighted the need for personal contact, attention and assistance – the “George Bailey/Bedford Falls” kind -- the kind that doesn’t go “by the numbers.” In many ways, it’s this kind of personal contact, attention and assistance that defines the core values of the CDFI industry.

Ultimately, even as conventional lenders achieve a wider reach in the upper end of our markets, they may also be serving these markets in a more-limited manner. They may become better providers of credit, to be sure, but provide less in the way of personal assistance.

Hence, the CDFI industry, in addition to providing capital to constituencies who don’t credit score, must also find better ways to provide assistance across a broader spectrum. Developing a focus on credit guidance and workout is likely to become one of the greatest needs among the constituents whom both we (and the banks) serve, going forward. This can and should become one of our most valuable services.

Steps to Take

If there’s one thing that we are here to do as gap lenders, it is to elevate that service to both a science and an art. With the effects of the down cycle still affecting us, now is a good time to redouble our efforts.

Here are several good places to start:

1. Pay critical attention to the conventional lending market.

- ▶ What’s happening at street level?
- ▶ What kinds of deals are or are not getting done?
- ▶ Where can I fit into the mix in the most collaborative way?

2. Focus resources on loss mitigation.

- ▶ It’s easier to be excited about the one enterprise in your community that’s saved from failure through workout assistance, than the 10 that obtain loans for expansion.
- ▶ This means increasing capacity to provide financial literacy and technical and financial skills, and greater commitment to pounding the pavement and spending time with borrowers.
- ▶ Develop predictive measures for the loans in your portfolio that enable you to contact your borrowers well in advance of a delinquency.

3. Increase your liquidity.

- ▶ In addition to redoubled efforts to obtain equity or grants, consider arranging back-up lines of credit or other forms of debt. Yes, you may have to get used to the idea of a higher cost of funds, but the pain of this can be mitigated by working with the concept of blending costs. Remember, in a down cycle, the gauge at street level moves from a concern about the cost of capital to a concern about the availability of capital.
- ▶ Look for other ways to liquefy your portfolio. There are various initiatives involving loan purchases and securitization. Consult the industry trade groups and agencies to determine the best avenue for your loans.

4. Diversify your portfolio.

- ▶ Many do this by investing in Treasuries. Well and good, but there have to be other assets out there that are mission oriented or involve higher returns, e.g., additional community development of a low-risk nature, or participations.
- ▶ Portfolio diversification is probably the most critical element in a sustainability strategy.

Conclusion

With the downturn and changes in the way banks underwrite, we face a new set of challenges. They are positive. The conventional lending sector is throwing us the ball and it is up to us to catch it and run. Yes, we will need greater resources, but we also can bring greater discipline and greater knowledge to the field – a field where both are very much needed.

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Aging in Place

Fitting Housing and Health Care Together So Seniors Can Live Where They Want

BY CATHERINE A. SMITH

Two anecdotes capture the intersection of affordable housing and health care that dominates the issue of helping seniors live and remain active in their communities.

In the Kirkwood neighborhood of Atlanta, Catherine Ivy of the Visiting Nurse Health System recalled a visit one day with Mrs. Jones (not her real name), an elderly woman she had known for about four months. After some trust was established between them, the woman said, “Ms. Ivy, I just want to show you something. I don’t think you can do anything about it, but I want to show you something.” Jones led the way into her bedroom, which Ivy had never been allowed into before. Overhead, in the ceiling, was a hole about two feet in diameter. You could see sky through it. Ivy asked, “Mrs. Jones, where are you sleeping?” She said, “In here. This is my bedroom.” The hole wasn’t right over the bed, and Jones explained she used a plastic sheet on rainy nights to keep from getting splattered.

Near Boston, Ellen Feingold of Jewish Community Housing for the Elderly told of Mrs. Greene (not her real name, either), a tenant leader and real go-getter in one of JCHE’s buildings. In her late 80s, Greene was on the tenant council, at the front desk, calling bingo – whatever activity was going on, she was there. Then one day, she stopped coming out of her apartment. People would call and ask, “Aren’t you coming to the tenant council?” and she’d say, “I don’t feel like it today.” After about 10 days of this, Greene’s friends urged Feingold and others to call. It turned out that Greene could no longer put on her stockings, and since no self-respecting lady would go out without them, she stayed in.

Jones had access to health services but a house that needed repairs; Greene had a good home but needed help with daily life.

Catherine Ivy and Ellen Feingold were among the speakers and panelists at a one-day forum on “Aging in Place: Integrating Community-Based Housecare

and Healthcare” that was presented in February at the Neighborhood Reinvestment Training Institute in Atlanta. An audience of about 250 heard from practitioners and supporters of both housing and supportive services. Like Ivy and Feingold, they recounted problems in integrating the two and then shared ways the obstacles are being overcome.

The forum was presented by Neighborhood Reinvestment’s Southern District office, the Atlanta Neighborhood Development Partnership Inc., the Community Housing Resource Center, and the Atlanta Regional Commission. Sponsors included AARP Georgia, The Enterprise Foundation, Fannie Mae Foundation, Fannie Mae Atlanta Partnership Office, Federal Home Loan Bank of Atlanta, Federal Reserve Bank of Atlanta, First Union/Wachovia, Home Depot, Department of Housing and Urban Development, Office of the Comptroller of the Currency, and SAFECO.

In welcoming participants, Don Phoenix, Southern district director, called the forum “the first, important step in bringing health and housing providers together to strategize on designs of neighborhoods and services that would make it possible for residents to reside where they choose and enjoy the benefits of all that is happening around them.”

The stories of Jones and Greene both have happy endings: It took a while, and Catherine Ivy had to ask a lot of people, but she finally found a church that used prison labor for certain tasks, and they fixed Jones’s roof and also made some other repairs. Greene, for 50 cents a day, gained the help of a neighbor in putting on her stockings.

Millions of women and men, like Jones and Greene, also have problems getting adequate care or adequate housing, or both. They fall along a financial continuum from middle class to very poor or even homeless.

Their problem is not new, but it is growing as America’s population continues to age and life spans get longer.



Defining the Problem

The U.S. Census estimates that one in six Americans will be over age 65 by 2020. In poll after poll, people of all ages make it clear that they want and expect to age in place. This usually means growing older in the home – or at least the neighborhood – where they’ve lived for years. Ideally, support systems would be in place so seniors could reside where they choose and remain active in their communities. They would have family and friends nearby who could help them. Their housing and health care would be affordable.

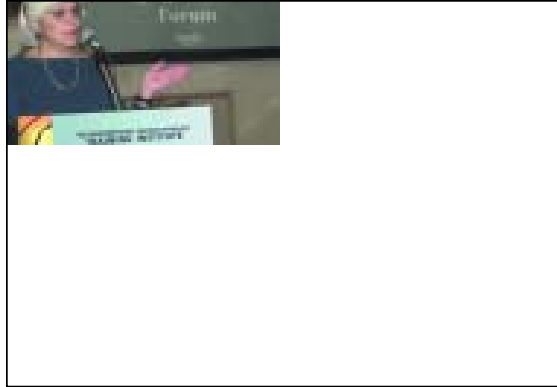
But instead, a host of obstacles gets in the way for a great many elderly, and the obstacles are likely to remain as baby boomers age – unless very serious measures are taken to overcome them. Among the most serious:

- ▶ Housing and repair costs contribute to unsafe conditions.
- ▶ No funding (except Medicaid for the very poor) exists for long-term care and little for supportive services.
- ▶ Funding issues impede even successful programs.
- ▶ The elderly population keeps growing, and systems to serve them are overloaded.
- ▶ Some federal and state regulatory and eligibility requirements inhibit access to funding and to cooperative relationships among providers.

And while these obstacles remain in the way, “millions of elderly people are suffering,” noted Ronda Talley, executive director of the Rosalynn Carter Institute for Human Development at Georgia Southwestern State University. This suffering “can be both physical and emotional... and needs to be eliminated through thoughtful, caring and yet cost-effective ways.”

Housing Costs

The cost of housing and repairs contributes to unsafe conditions for many seniors, “who won’t be pried from their homes even if they’re crumbling around them,” as Catherine Ivy said. According to a 1999 housing survey of the U.S. Department of Housing and Urban Development, people 65 or older owned 17 million homes and four million rented, out of the 102 million households in the country. The median income of elderly renters was \$12,000 (roughly half the median for all renters). The median for elderly homeowners was \$24,000.



Ellen Feingold
PHOTO BY SEAN BENNETT

“We’re the best-housed country in the world,” said Cushing Dolbeare, chair emeritus of the National Low Income Housing Coalition, “but one-third of elderly households and two-thirds of elderly renters have a problem, and that problem is housing costs.”

Lack of Funding

Unless you’re extremely poor and qualify for Medicaid, there is no funding for long-term care and little for supportive services. “If you ask the average person,” Ivy said, “what they think is going to happen when they need homemaker services, or help in and out of the bathtub, they’re going to say to you, ‘Oh, Medicare is going to cover that.’ They are sorely, sorely disappointed when they need such help and find it’s not available.”

Medicaid funding for long-term care “has an eligibility level that is really very low,” said John Shen of On Lok SeniorHealth. Bruce Gunter of Progressive Redevelopment Inc., emphasized, “There’s a large population who’s reached an income level above that,” including moderate-income people who can easily fall through any funding cracks. Housing providers who are also attempting to provide health and supportive services see “a real mismatch between our desire to hold rents very low and the need to pay for the services.”

Service Bottlenecks, Patchwork Resources

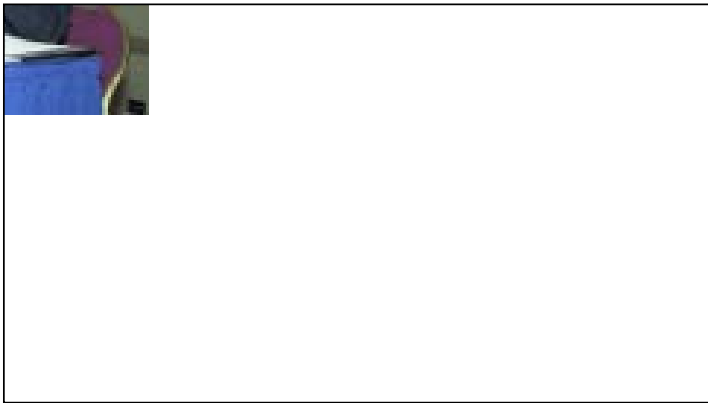
Funding issues impede even successful programs. “Those of us who work in housing,” Ellen Feingold said, “know that most of the [home-care] assistance our people need is not high tech. It’s not dialysis. It’s not skilled nursing.” But there’s a tremendous labor shortage when it comes to finding skilled aides who can provide personal care.

“The certified nursing assistants we work with,” Ivy noted, “make less money cleaning up and taking care of older people than they would working at the Quick Trip gas station down the street. And they

don't have health care benefits.”

Many companies and organizations have cut back on travel reimbursement for aides as well, which means there's a very critical shortage of caregivers willing to work in rural communities, where clients can be 50 miles apart. Organizing supportive services so that residents get the incremental 15-minutes-here, half-hour-there help that most of them need is also a challenge.

At the federal level, Feingold compared relevant agencies (in this case, HUD and Health and Human Services) to separate silos that stand alone. Both have their own sections in the Office of Management and Budget, she pointed out, and their own



Panelists present challenges from the field.

PHOTO BY SEAN BENNETT

authorizing and appropriations committees and subcommittees in the House and Senate.

“In times of scarce financial resources,” Feingold said, “when the administration and Congress say, ‘Keep down your spending,’ anything that doesn't belong strictly within those silos is something those agencies don't want to do. So where do services-in-housing fit? They don't fit, in either of those silos.”

Exceptions are the service coordinators in Section 202 projects and several Administration on Aging programs, “but they're a drop in the bucket,” Feingold said.

The description by Steve Brazen of Senior Connections of managing different kinds of funding is instructive: “We literally move people from funding source to funding source on a daily basis,” he said. “Our state and federal dollars, which come through the Atlanta Regional Commission and the state Office on Aging, mean we've got Title 3(b), Title 3(c) and sometimes Title 3(d). We get Title 3(e) this year. Then we get SSBG Title XX funds, and we get Title XIX. We're a Medicaid provider for the CCSP programs. Am I throwing enough acronyms at you?”

After the laughter died, he continued, “We're also a Title XIV provider for the Source program. We get USDA funds. We get income-tax check-off funds. The county government privatized its programs

years ago, and we're the primary contractor. In another county, we are a vendor. We get United Way funding and also have private funding, and we do private-pay.”

Cobbling together resources like this is time consuming and frustrating for nonprofits that really want to be focusing on the needs of their clients.

Overloaded Services

The elderly population keeps growing, and systems to serve them are overloaded. “If you reach age 65, and nothing catastrophic happens to you,” said Billie Greenwell of HHS's Administration on Aging, “there are very good chances – maybe one in three – that you will live to be 100. We're not talking about your grandchildren. We're not talking about your children. We're talking about you. And we can't keep up. That's the truth of the matter.”

Even service coordinators who work in the relatively small market of Section 202 housing (developed by nonprofits specifically for the elderly) are overburdened, with caseloads often exceeding 200. There just isn't enough affordable housing and health- and home-care options to even begin to address the problems of this large population.

In addition, serving both the housing and health needs of this population requires cooperation of the highest order, and such partnerships are only just now forming. Service collaborations are not necessarily easy, since they usually mean organizations become dependent on one another and can feel a loss of control.

Regulatory Restrictions

Some regulatory and eligibility requirements of federal and state programs inhibit access to funding and to cooperative relationships among providers. John Shen of On Lok SeniorHealth related how one of his colleagues in Sacramento attempted to develop housing that included nonskilled personal care services for seniors in the building.

“The state licensing entity said, ‘You are absolutely not allowed to do this,’” Shen said. “You – the housing provider – have to acquire a personal care facility license before you can provide any of those kinds of services,” even to help with simple chores.

The issue of aging in place is a public concern. As Kathryn Lawler of the Joint Center for Housing Studies at Harvard put it, “Social Security, Medicare and the current housing mortgage products that we have were all developed because individuals could not survive on their own. We had to address the issue on a public level. And the same holds true now with aging in place.” She pointed out the importance



of state and federal agencies examining their regulations to see how they might be adapted to the growing need for housing and health-care providers to work together.

Solutions Are Possible

First, the big picture:

In the housing arena, according to Cushing Dolbeare, “It would cost \$67 billion a year to make up the difference between 30 percent of household income and fair-market value” for Americans paying more than they can afford for housing. “The cost to the U.S. Treasury of the mortgage income-tax deduction alone is about \$67 billion,” she continued. “So, when I’m told it’s unrealistic to envision a society where we provide the kind of support we need, I say that if we’re simply willing to spend the same amount of money for low- and moderate-income people as we’re willing to forego in tax revenue, we could solve our housing problem.”

The health-care providers’ dilemma is one of having different definitions for terms such as “assisted living” and few funding sources even when the definition is understood.

So, how are service providers and nonprofit housing developers overcoming the dearth of funding and other obstacles? What is reaching at least some seniors in need, and how can those programs be replicated? The answers include –

- ▶ Innovative financing,
- ▶ Local initiatives,
- ▶ Voucher programs, and
- ▶ Shared services strategies

Innovative Financing

Innovative financing is possible. John Shen calls the financing strategy of On Lok SeniorHealth one of its “biggest achievements.” What On Lok has done is assume financial responsibility for all the services incurred by individual clients.

“We have created a combined funding stream from both Medicare and Medicaid,” Shen said, “and basically fund our service program on a per-member, per-month basis.” On Lok receives a single amount from federal and state sources per client – including acute-care dollars from Medicare – and uses the funds to supply whatever the client needs. This includes doctor’s fees and prescriptions, as well as personal-care services or minor repairs to their homes. This enables even the most frail, cognitively impaired, elderly to remain in their homes and avoid

more-costly nursing home care.

Innovative efforts are also being made on the housing side. Fannie Mae, for example, is testing “different financing options that would allow sons and daughters to purchase or refinance homes under more flexible terms, if they’re buying those homes for their aging parents,” said Jim Taylor, director of product development for Fannie Mae.

Local Initiatives

Cities, towns, neighborhoods or even housing developments can identify and support innovative solutions. In 1983, for instance, a \$10,000 contribution from the board of Nat Yalowitz’s Penn South Co-op in New York funded an assessment of the



Host Don Phoenix (center), Southern District director, with key presenters.

PHOTO BY SEAN BENNETT

needs of seniors in its 2,800 units. It turned out that 74 percent of the co-op’s residents were seniors – not all frail, but many with serious problems. This led to a task force that decided on an approach to addressing their problems, and the co-op board was asked to commit to half-a-million dollars in funding.

“They really, really sweated very hard” about this at the time, said Yalowitz. The Penn South supportive-services program began in 1986. The board committed to future funding, which helped leverage funds from foundations, and the program expanded. Funding from the state followed several years later, and by 1996 Penn South had programs operational at 14 sites.

A new entity, the New York Supportive Services Center, then was formed, which has been developing programs throughout New York state, the Northeast, and around the country. At this point, New York state alone has 30 such programs, covering upwards of 300,000 seniors living in inter-generational housing.

Voucher Program

Voucher programs are very useful in enabling residents to get exactly the care they need. For example, Georgia’s statewide Medicare waiver

program provides for very long-term care services – but only for very-low-income, Medicaid-eligible residents. Last year alone, almost 17,000 people in Georgia were helped by this waiver program, receiving services such as adult day care, housecleaning, home-delivered meals, and personal-care services such as helping someone in and out of the bathtub.

“Eighty-three percent of the clients we serve are over 60,” said Catherine Ivy, who manages the Community Care Services Program of the Visiting Nurse Health System for the Atlanta region. “Thirty percent are over 85, and 15 percent are over 90. So these are folks who, with a little bit of help getting through the day, are able to stay in their own homes.”

However, the program currently has a waiting list of more than 3,000.

Shared Service Strategies

Shared service strategies address the need most seniors have for a smattering of services throughout the day by having one aide in a building travel from person to person, providing care in small increments to numerous residents.

Cheryl Schramm of the Atlanta Regional Commission is in the process of creating a voucher program for caregivers, enabling them to contract with family members or neighbors to provide some needed services. She also sees caregiver teams cropping up at churches and in other groups, where one person agrees to provide transportation for a homebound senior, another does the senior’s shopping, and yet another helps out in the home.

“One of the things we could think about in this collaboration between housing and aging services is really figuring out what people need, when they need it, and how to provide it,” Ivy said.

Policy Changes Long Overdue

Ellen Feingold first ran into the phrase “aging in place” nearly 20 years ago, “when public housing authorities began wrestling with tenants who were literally dying in place, with no services. They were a threat to themselves and to their housing, and the public policy issue was, ‘What do we do with them?’”

Feingold helped the late Sen. John Heinz host public hearings in Boston on this topic. “We felt we changed the dialogue,” she said. “We changed the values, we changed the perceptions. The committee went back to Washington saying, ‘We’ve seen the light.’ That was in 1984 or ’85. And very little has changed in the funding structure and the program structure since then.”

The vast need for affordable housing and health-care services for the elderly is a definite signal for far

greater federal funding and involvement, according to forum participants.

“You can’t do this without federal money,” said Nat Yalowitz, “and without some central governing body taking the leadership. We need that federal input, and we need it desperately, to see these programs grow. But we need it without the crushing legislation, the various titles.”

Feingold and the Congressional Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century, the “Seniors Commission,” which she co-chairs, have been examining ways that a one-stop shop could be created – where “pieces from different agencies could be accessed as one, and different time schedules and conflicts over eligibility thresholds would be avoided.”

“It’s a nightmare to try and put one of these packages together,” Feingold said. “If we could create programs that would work in one piece, we would have made an easier but massive leap forward.”

In the meantime, other changes would be helpful. Among those mentioned at the forum were for HUD to create new categories of eligible activities that might open up additional funding. A higher threshold for Medicaid eligibility would enable more seniors to have their long-term care needs met.

Partnerships in the private sector are also yielding some innovative approaches. One developer who’s using low-income housing tax credits to build multi-family housing is considering taking a portion of its development fee and restricting it as an endowment to subsidize home care for the people in its facility, according to Steve Brazen of Senior Connections.

Keeping the Dialogue Going

The Aging in Place forum in Atlanta was viewed as a good way to both begin facilitating the needed dialogue between health and housing nonprofit practitioners, and further encourage proactive changes from the public agencies that regulate and fund the programs and services local communities deliver.

“We’re not there yet,” Feingold said, “and it’s interesting, because we’ve been 15 years going there. Irving Mitchell, the director of the Governor’s Office of Business Development in Georgia, said it’s nice to see so many of us here fighting the same fights. I would say to you, ‘I’d love to win the fight and go home.’” ■

Catherine A. Smith is president of Community-Based Communications in Cheverly, Maryland.



New Manufactured Housing: It's Not Your Grandfather's House Trailer

BY PATRICIA ANDERSON BROWN

Closely clustered trailer-park homes in rural America and tornado-swept mobile homes torn from their foundations may be the prevailing images of manufactured housing, but today's new stock of manufactured homes, in contrast, shows attractive housing that easily complements a neighborhood's contemporary landscape.

Well-designed and -constructed manufactured housing reflects an industry that is on the edge of renewal – a major comeback for a housing resource long plagued by negative perceptions.

Better quality, greater regulatory oversight, improved asset-building capacity, lower production costs, and greater affordability all could make manufactured housing a suitable alternative for low-income homebuyers. But, before then, lingering issues such as land ownership, product accountability, financing options, and predatory lending still must be resolved.

These were among the issues explored in a one-day symposium on “Developing Community Assets with Manufactured Housing: Barriers and Opportunities” that was presented in February at the Neighborhood Reinvestment Training Institute in Atlanta. The symposium was sponsored by the NeighborWorks® Campaign for Home Ownership 2002, NeighborWorks® Rural Initiative, and Neighborhood Reinvestment Training Institute, with support from The Ford Foundation and Freddie Mac.

State of the Industry

Manufactured housing refers to a home's construction process. Instead of a construction crew assembling nearly 50,000 pieces in a stick-built home on-site, manufactured housing is built in a controlled factory environment and transported intact to a retailer or directly to a site.

Manufactured housing has a permanent, integral chassis and is built according to the National

On-site example of new manufactured housing.



Manufactured Housing Construction and Safety Standards Act, also called the HUD code. The HUD code, the only federal building code in the country, supercedes state and local building codes in areas where manufactured housing is placed.

Manufactured housing is a narrow, technical term that does not include other factory-built housing, such as modular, pre-cut and panelized, homes. They, too, are built in a factory, but must meet local codes. In a typical year, almost 300,000 factory-built homes are put to use, 80 percent of which are built to HUD code.

Manufactured housing is a growing share of America's owner-occupied stock, particularly among low-income families. In the 1990s, manufactured homes sited on owned land were the majority of new placements, even among lower-income buyers.

In the rural and small-town South, these houses account for more than half of new housing starts, especially in North Carolina, the number-two state in the nation for manufactured housing. Forty percent of all housing starts in North Carolina during the 1990s were manufactured. Besides North Carolina, Florida, Texas, Georgia and South Carolina also are among the top six states for existing units in place, accounting for 2.8 million units in 1999. In the Carolinas alone, nearly one out of five households lives in a manufactured home, according to the 1999 American Housing Survey.

Growth in manufactured housing accounted for

more than one-sixth of the total increase in homeowners between 1993 and 1999. Today, more than eight million manufactured homes exist, with more than a quarter-million new units being purchased each year. This represents 25 percent of single-family home production.

Since 1998, more than 60 percent of manufactured homes are two or more units joined on-site in a variety of ways. Nearly 75 percent sit on private land, and many new manufactured home communities offer high-quality houses that rest on permanent concrete foundations. Previously, nearly 75 percent were single-section units, and most leased land in manufactured housing communities.

The face of owners has changed as well. Recent purchasers are more likely to be younger than 25 and older than 54, compared with owners of site-built homes. Whereas manufactured homes were once largely occupied by whites, ownership now extends across racial boundaries to include African-Americans and Hispanics, with 4.5 percent and 4.4 percent, respectively, living in manufactured homes – compared to 6.6 percent of all households.

Overcoming Lingering Issues

Overcoming some of the lingering issues associated with manufactured housing is key to its making the leap from being just another option to being a preferred alternative. The issues include:

- Perceptions,
- Land ownership,
- Financing, and
- Depreciation.

Perceptions

The largely held view of manufactured houses as low-quality, poorly designed, and less durable is passé. Since 1976, all units have been designed and constructed to HUD's performance-based code. HUD oversees quality through inspections (of the manufacturing process) by contractors operating in manufacturing plants.

Although a variety of materials can be used to achieve durability, "the quality is there, if you choose the right manufacturer," according to a Raleigh, North Carolina, community development corporation director that produced \$17 million in housing in 2000. The Joint Center for Housing Studies' 2001 report cites improvement in quality as a supporting factor in its projection of manufacturing housing's continued role in the affordable home ownership market.

The manufactured housing industry has evolved since its early years, and now delivers an increasingly quality product aimed at competing

with entry-level site-built homes. Most of the homes placed after 1995, for example, are double-wide, instead of single sections. Recent designs include two-story units and attached garages, and fit well in urban infill developments.

In terms of durability, some studies have found that manufactured housing can last as long as site-built housing – depending on how well it is maintained.

Land Ownership

Overall, more than half of existing manufactured-home owners lease the land under their home. Of those who lease, three-fourths live in parks, the rest on individual lots. The issue of leased-versus-owned land is critical, because lenders traditionally have been unwilling to finance manufactured homes on leased land as real estate.

Thus, many low-income buyers living in leased communities have had to finance their homes with personal-property loans, whose interest rates can range up to 600 basis points higher than mortgage rates. These loans have fast approval times and easy qualifications, but yield significantly higher costs.

Other problems with leased land include the leverage landowners have over tenants, and tenants' lack of recourse in disputes with landowners.

For example, residents of the 22-acre Garden Springs Mobile Home Park in Athens, Georgia, found themselves looking for a new place to live when their park was sold to an out-of-state developer. Last June, residents were notified of the sale and plans for student apartments to be built on the land. They were given until March to move. The park's low-income residents had no recourse. Nearly 60 families were displaced. Appeals for assistance and support are still underway.

Although landlord-tenant protections have been extended to mobile home owners in many states, 18 had not done so as of 1998.

Financing

More than a dozen states do not allow HUD-code manufactured housing on leased land to be defined legally as real estate. As a result, FHA and other mortgage programs cannot legally make loans on these units. Other financial institutions, such as Fannie Mae and Freddie Mac, have traditionally not supported a secondary market for manufactured housing loans classified as personal property.

Today, new loan products are being introduced for residents in land-lease communities, which, under special circumstances, would allow them to finance their homes as real estate. Personal-property lenders have traditionally welcomed prospective home-



buyers who cannot qualify for mortgage financing because of subprime credit.

Depreciation

Depreciation in manufactured housing value is not inevitable for all units. In an analysis of 88,000 resales of housing units, Datacomp USA, a Michigan firm that specializes in manufactured home appraisals, concluded that similar factors affected both manufactured and site-built home values.

The age of the manufactured home was an important factor in value for the first 10 years, after which maintenance became an overriding factor. Recent research on home values in New Hampshire's 54 cooperatively owned parks indicated that manufactured housing sometimes increases substantially in value. Other factors that affect value include land ownership and location (as with all units).

Recognizing the Benefits

Despite the challenges the industry must overcome, clear benefits still exist in presenting manufactured housing as an affordable housing strategy. They include:

- ▶ Cost savings, production and strategy.

Cost Savings

The potential for cost savings in manufactured housing, compared with site-built units, is clear. A 1999 study by the National Association of Homebuilders for HUD indicated 53 percent cost savings for "identical" 2,000-square-foot homes, including foundation but excluding land. Reports from CDCs that have used manufactured housing in Raleigh and Seattle, however, cite savings in the 10 percent to 20 percent range. Savings must be determined on a market-by-market basis since labor could vary from one area to another.

Production

Because manufactured homes are produced in controlled, factory environments, efficiencies in production and security costs and development time can be achieved. Other advantages of building homes in factories include a stable, full-time work force, greater quality control and precision in assembling components, minimized waste and theft, minimized noise and environmental impact on the home site, and greater protection of materials from weather.

Redevelopment Strategy

Greater design compatibility with existing housing

stock makes manufactured homes a potential strategy for revitalizing neighborhoods. The units can be used in urban infill developments without distracting from the look of the neighborhood.

A Strategy for Home Ownership

Manufactured housing will continue to be an option for low- to moderate-income buyers and renters. Housing professionals and practitioners are challenged to remain open to the possibilities and potential that this market offers. Incorporating HUD-code homes into the mix provides an opportunity for some individuals to achieve the dream of home ownership. What can housing practitioners do?

- ▶ As developers, they can use the cost and administrative advantages of manufactured housing to deliver ownership and rental housing to a variety of affordable market segments.
- ▶ As housing rehab specialists, they can include old manufactured homes and parks on their list of opportunities for community renewal.
- ▶ As partners with lenders and government housing programs, they can help to mainstream manufactured housing into lower-cost mortgage financing.
- ▶ As homebuyer educators and counselors, they can help consumers navigate a complex marketplace. Offering a course about manufactured housing to homebuyers would boost their knowledge of the market and possibly help them avoid some of the pitfalls.
- ▶ As property managers, they can provide quality management approaches to manufactured home communities.
- ▶ As advocates, they can use their knowledge of construction, development and design to counter NIMBY opposition to HUD-code homes. Educating the community about design innovations and improved quality in manufactured housing is a key to acceptance.
- ▶ As voices in housing policy, they can help to bring about needed changes in policy, law and regulation. Efforts could address issues such as landlord-tenant rights and protection, reclassifying all manufactured housing as real estate, improving mechanisms for handling warranty disputes, and assuring manufactured housing park residents the right to match offers from prospective buyers to avoid eviction. ■

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In New Hampshire Manufactured Housing Cooperatives:

Controlling Their Communities

BY BECKY VENNE

Ask the residents in one of New Hampshire's 54 manufactured housing cooperatives what they like best about living in a co-op, and they will tell you the same answer over and over again – control.

"The biggest benefit is control," says David Doane, president of the board for the Birches at Wolfeboro co-op. "Not for personal or even for the board's benefit – but control of our community. We can say how we want our roads paved and plowed and how we want our communities to look."

In the past, manufactured housing park residents would not have had a voice in how their community looked or even whether they could remain living there. Tenants were at the mercy of mostly outside investors, and had no security that the land they lived on would not be sold out from under them.

But with the creation of manufactured housing cooperatives, founded by the New Hampshire Community Loan Fund, co-op residents can sleep at night, knowing that they co-own the land and have not only a home, but also a built-in community. (For background on NHCLF, www.nhclf.org.)

Co-op Conference

At an April conference on "Building Strong Communities," more than 150 resident leaders of all ages and backgrounds came together for a day in Bedford, New Hampshire, not only to celebrate their successes but also to discuss their challenges. Instead of worrying about who owned their land, they could focus on more universal challenges, such as getting people involved in the governance of their parks. The conference was sponsored by the New Hampshire Community Loan Fund.

Conference participants ranged from members of brand new co-ops to seasoned veterans. Members of the North Country co-op in Tuftonboro, New Hampshire, for example, had become an official co-op just 13 days before the conference. The co-op's residents, including James Stadnyck, were feverish with excitement about the possibilities for their community. They spent their lunchtime sharing what they had learned in classes and putting together action plans for their return.

While the Lakes Region Mobile Home Park in Belmont, New Hampshire, has been a co-op for two years, the co-op's Lois Parris has been a resident leader for a long time. A warm and welcoming woman, Parris is not only the board chair of her co-op, but also president of the Manufactured Homeowners and Tenants Association. The association lobbies the state to protect the rights of manufactured housing park residents. Parris has become a resource to others facing evictions that hear about the groundbreaking work of the New Hampshire co-ops.

Manufactured housing co-op residents do not debate the validity of manufactured housing as a living option. They are proud of their communities. They work hard to get people involved and to make their homes safe, clean and sustainable for the future.

Mention that they have become a success story across the nation, and these residents are quick to point out that they feel lucky simply to be living in New Hampshire. After all, it's resources like the New Hampshire Community Loan Fund that have given them the opportunity to gain control over their futures.

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Combining Manufactured and Conventional Housing in Seattle

Noji Gardens, a 72-unit residential development in Seattle, Washington, has successfully integrated manufactured housing with conventional housing and brought affordable housing into the area. The manufactured-home design is actually two HUD-code homes on a single foundation. The units range in size from 1,283 to 1,425 square feet of livable space.

The development, a project of HomeSight, a NeighborWorks® organization, celebrated its grand opening in mid-2001. Homes have sold for between \$170,000 and \$200,000, which is well below Seattle's median price of \$234,000 for a single-family home, in 1999.

HomeSight spent more than 18 months researching manufactured housing components. It worked with the local jurisdictions on coordinating regulatory compliance and educated the lending community – involving key partners at the very beginning.

By using manufactured homes, the company saved 10-15 percent from the foundation up, experienced construction-time savings, and brought urban development to the community.

Additional residential developments based on the Noji Gardens design are being planned, and HomeSight has plans for other manufactured home developments in the Seattle area.