Strengthening Neighborhoods by Creating Long-Term Multifamily Assets


HOSTED BY THE NEIGHBORWORKS® MULTIFAMILY INITIATIVE
from the executive director

According to “The State of the Nation’s Housing 2001,” published by the Joint Center for Housing Studies at Harvard University, approximately 2.65 million multifamily housing units nationwide were either converted or demolished during the 1990s. Between 1985 and 1999, only about 2 million such new units were created – a net decrease of 650,000 units.

This clearly illustrates the need for new construction of affordable multifamily housing and a greater focus on preservation of existing housing. Moreover, it is often the quality of the multifamily housing stock that ultimately determines the fate of a neighborhood. Excellent multifamily housing is an asset that often attracts consumers and investors; conversely, poorly managed multifamily housing can be a major barrier to community revitalization.

With this in mind, I am proud to present to you these proceedings of a symposium entitled “Strengthening Neighborhoods by Creating Long-Term Multifamily Assets.” Earlier this year, this day-long symposium brought some of the brightest minds in the business of financing, developing and managing multifamily housing together to discuss how multifamily housing can be acquired, developed, redeveloped and operated so that it yields positive results for the owners, managers, residents and the surrounding community.

The ultimate goal of Neighborhood Reinvestment’s NeighborWorks Multifamily Initiative, which convened the symposium, is to create sustainable, excellent affordable multifamily housing. I wish to thank, especially, Frances Ferguson, manager of the NeighborWorks Multifamily Initiative, who put together the symposium, as well as the Neighborhood Reinvestment training department staff who worked to make the symposium so successful.

I also wish to thank the Fannie Mae Corporation for their generous financial support, which enabled the Neighborhood Reinvestment Corporation to conduct this important event.

The five papers that follow were written by five lead presenters at the symposium and distributed in advance to symposium participants to provide a framework for each panel discussion. Reports of the panel discussions are also provided, which includes many valuable insights offered by audience members as well as panelists.

I believe these papers and panel discussion reports offer valuable lessons and ideas about how to create multifamily housing that improves as it ages and helps lift families and individuals out of poverty and into a world of greater opportunity.

Ellen Lazar
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Neighborhood Reinvestment Corporation
“Strengthening Neighborhoods by Creating Long-Term Multifamily Assets”
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Introduction

WHAT IS SUSTAINABLE, EXCELLENT, AFFORDABLE MULTIFAMILY HOUSING?

In Austin, Texas, the Sierra Ridge Apartments was purchased by Foundation Communities (formerly named Central Texas Mutual Housing Association) from private owners in 1991. At the time of purchase, the property was in poor condition, with weekly water interruptions, dangerous playground facilities, and frequent criminal activity. Ten years later, it is

a) physically sound and attractive: in good physical condition, with regular capital improvements and a soundly funded replacement reserve;

b) affordable: home to 148 very low-income families (each has an income below 50 percent of the area median income at the time they move in);

c) economically viable: the complex operates at full occupancy with strong collections; it generates positive cash flow for the owners; and

d) socially positive: the positive cash flow has enabled Foundation Communities to provide a host of services for the residents through the on-site computer learning center, including scholastic success programs, individual development accounts, and homebuyer preparation.

In sum, the nonprofit corporation’s balance sheet remains strong, enabling it to withstand market fluctuations and to access loan capital if necessary; and the property remains affordable, despite a steeply rising housing market in the area, and socially it is known as a place where children are succeeding in school and families are saving for homeownership.

We’ve seen how neighborhoods thrive when this kind of housing — serving as a cornerstone for building healthy neighborhoods — is present.

So why isn’t this the norm?

Places like Sierra Ridge are neither rare exceptions, nor, sadly, the rule among today’s inventory of multifamily housing. We know it’s because the dollars are scarce and the need is so great, and so to get more families served, we – the affordable housing community – spread the subsidies thinly and operate these properties on tight margins. All too often, we get it built or we acquire it, but these tight margins do not allow for the true demands of capital replacements and market fluctuations within the affordability constraints the revenues must honor. The property is not financed by design to improve in quality over the following five, 10, 15 or 20 years. And, if the situation goes unabated, too often the property declines, the owner declines and the neighborhood is harmed, resulting in the multifamily property being viewed as an undesirable force in the neighborhood.

Changing the Way We Operate

The participants of the symposium, held in Chicago in April 2001, all agreed that successful affordable multifamily properties often are the cornerstones of healthy neighborhoods and of neighborhood revitalization efforts. So how do we make such properties the norm?

Symposium participants came “loaded for bear” on this subject.
Financing Programs and Allocation Methods: Some took aim at our financing programs – programs, they alleged, that were largely aimed at building affordable multifamily housing, but with subsidies too thin and regulations so numerous that the owner-operators had little chance to achieve a sustainable level of excellence in their affordable multifamily properties.

Ownership Strength: Others took aim at the wisdom of the affordable multifamily housing sector for trying to accomplish too much with small owners, calling out the need for sizeable ownership entities that could bring the institutional strengths of personnel and financial depth needed for long term operational success.

Social Role: Yet a third group aimed at those they viewed as cynics for their single-minded desire to equate success in terms of a financial return to the owner. They advocated that equally important to cash flow projections was dedication to providing quality affordable housing plus a layer of services for residents, so that residents and neighborhoods thrive. These voices called out the fact that in the current environment, we force a Solomon’s choice on cash flow: reserves and capital improvements or fund these necessary services.

Realistic Expectations: Finally there were strong voices from the finance community. Their argument called on us to recognize that in many non-appreciating, modest income markets (e.g. rural or small towns), affordable housing simply won’t throw off enough cash flow or build enough equity to self-fund the reserves or refinancing needed for capital replacements. Some injection of subsidy capital every 15 years or so should be expected.

What is the NeighborWorks® Multifamily Initiative?
The NeighborWorks® Multifamily Initiative, a collaborative portfolio management program of the NeighborWorks® Network, was privileged to play host to this discussion among a distinguished group of housing professionals on the panels and in the audience.

Currently, 43 NeighborWorks® organizations, serving 30 states, are initiative members. These independent, locally led, nonprofit NeighborWorks® organizations collectively own 20,000 affordable multifamily housing units. The largest organization owns more than 1,800 units; the smallest owns less than 100 units. All have ongoing growth plans to develop and preserve housing to serve the needs of their communities. Whether urban or rural, all strive to promote community revitalization through the development and maintenance of properties that are affordable, physically sound, economically viable, and socially empowering.

Why host this symposium?
The Multifamily Initiative has some inspiring examples of excellent sustainable affordable multifamily housing. Here is what we see, and some of the things we convened this symposium to explore:

Capital planning for long term maintenance, replacement, and improvement. If sustainability of affordable housing is to be feasible, this cost pattern must be realistically and honestly anticipated in the financing and operating budgets.
Highly accountable ownership that receives adequate compensation. Development fees are accepted as a requirement, but that is not the case with asset management fees (ownership fees). These should be viewed as an “above-the-line” expense that must be paid if you want effective, competent owners. Designing the asset management fee to create the economic incentive to own and operate a full portfolio of affordable multifamily housing makes sense. If asset management fees are to some degree performance-based, then owners could increase their return by improving their property performance in a comprehensive way.

Restricting the property for long term sustainable affordability.
Simple long-term deed restrictions are essential, if we are to avoid the 15-20 year struggle to keep existing properties affordable in appreciating markets, where it is so badly needed. Subsidy allocation can provide points, which provide incentives for development of affordable housing in strong sub-markets. Then long-term deed restrictions could be designed so that appreciation in a strong sub-market environment could be strategically employed over time to maintain affordability, fund capital needs and expand social services.

Services that truly advance personal assets (education, employability, savings, leadership, home ownership), actually help property performance and long term market viability.
Services can promote personal asset building among residents, as well as long term operational strength of the property. Subsidy programs should allow as a reasonable operating expense a per-unit allocation for the coordination and delivery of these services. Owners could be compensated based on their success in delivering services that produce measurable outcomes. And finally,

Simpler and easier financing. We are not alone in noticing that complexity equals increased cost. With today’s long-term debt financing and many-layered subsidies come a host of competing compliance terms that result in more time (cost) in pre-construction period, and in every phase of development and operation thereafter. In addition to the direct costs incurred in dealing with extended timeframes for capital aggregation, the layers of complexity add significant operational costs in the form of increased training and turnover among management and staff, and increased internal costs for verification of compliance. Perhaps a process by which the regulations of the largest funding source could “rule” on each property would simplify matters for all concerned.

Conclusion
We have come to learn the cost of not pursuing sustainable excellence – it appears to be the loss of support of the larger body politic, the larger community for affordable housing. Yet we have begun to learn what it takes to achieve this excellence and suspect that, in the long run it is more effective policy. That’s where we begin this symposium. We hope the day’s proceedings, presented here in abbreviated form, will become a springboard for action in the near future.

Frances Ferguson is the manager of the NeighborWorks® Multifamily Initiative.
Excellence in Affordable Multifamily Housing Properties

by Charles S. Wilkins, Jr.

Prepared for the panel: What Can our Products Be?
Characteristics of Excellence in Affordable Multifamily Housing

We have learned a lot over the years about what makes a property desirable for the residents, the neighborhood and the owner over the long term. So why aren’t these properties the norm?...

...[A]ffordable housing is more successful today than thirty years ago:

Professionalism – today, we have a large and diverse group of affordable housing specialists: accountants, architects, attorneys, developers, property managers, regulators and syndicators, to name a few. Most of these professionals have 10 plus years of experience in affordable housing. Education and training opportunities are diverse, readily available, and responsive to professionals’ needs.

Allocation of Funds – the tax credit, volume-cap tax exempt bond, HOME and CDBG programs feature localized allocation processes, with local ability to set priorities within broad federal guidelines. This in turn leads to useful experimentation and vigorous competition.

Reliable Funding – tax credits, volume-cap bonds, HOME and CDBG provide a stable base of funding. In turn, this allows a larger number of organizations to specialize in affordable housing, thereby enhancing competition, improving quality and driving down costs.

Lessons Learned – we now have structures in place to prevent the recurrence of some of the major problems of the past. It’s unlikely we will ever again combine above market rents, project based assistance, and government guaranteed mortgage debt.

We seem to have resolved not to concentrate the poorest of the poor in isolated communities.

Long Term Capital Needs – we know how to determine the ongoing major repair and replacement needs of properties. In a few cutting edge programs, such as Mark to Market, we are actually using capital needs assessments to set adequate reserve deposits.

Non Housing Services – although much remains to be learned and done, we are well on the way to understanding when non housing services should be offered at or through an affordable housing property, and how to do so.

Project Based vs. Tenant Based is now regarded as a false choice. We now understand that we need both approaches. A few of us are even inventing hybrid approaches.

Curb Appeal is now regarded as an important part of affordable housing. For the most part, we now recognize that it’s a bad idea to develop affordable housing that looks ‘cheap’.

However, our funding programs are flawed. Vigorous competition has sometimes allowed rose colored glasses to substitute for sound underwriting. Many lessons from the past are evident but are not yet incorporated into affordable housing practice.

Some of our experimentation with non housing services and mixed income communities is fundamentally unsound. Our unavoidably schizophrenic identity – pursuing an anti-poverty mission through a businesslike real estate system – often means that we act like bankers when we should act like social
workers, and vice versa.

...[A] look at the best affordable multifamily housing [shows that] sustainably excellent affordable multifamily housing:

1. Is owned and managed by professional affordable housing organizations that are competent, committed to affordable housing, and have access to adequate capital. These organizations have the ability to survive market fluctuations, to survive in the absence of development opportunities, and to survive the departure of key staff. They monitor their properties closely, heading off most problems before they occur. I believe that the for-profit or not-for-profit status of the owner is largely irrelevant, by comparison to the characteristics noted above.

2. Is truly affordable for its actual residents. Excellent affordable housing is developed:

   • For a particular target market, with a thorough understanding of customers’ household sizes, incomes and housing needs. Not “build it and they will come.”
   • With rents that are affordable based on the actual incomes of the target households, taking into account other demands on their incomes, and when there are a sufficient number of target households. Large numbers of tax credit properties failed because there were too few households with incomes low enough to be eligible but high enough to afford the rents.
   • With rents that are materially below prevailing market rent levels in the neighborhood. Otherwise, don’t ask me to justify the governmental cost to develop the housing.

Is efficient. High development costs, high operating costs, slowness, sloppiness, and lack of professionalism are our own worst enemies. If we don’t defeat these enemies, the people who pay our bills will take their money somewhere else. Shame on us if that happens.

Is located in a viable neighborhood. The neighborhood mix of homeownership to rental, and residential to nonresidential uses, is appropriate and reasonable. The neighborhood’s housing, trans-
portation, jobs, schools, public safety, shopping, recreation, and public spaces form a smoothly functioning network that supports residents and community.

**Fits into the neighborhood.** Its architecture echoes that of nearby residential buildings. The number of dwelling units is neither too few nor too many, in comparison with other nearby rental properties.

**Has an attractive, low maintenance design.** A ‘zero maintenance’ exterior adds a lot of value. Simple construction is better than complicated construction. Simple mechanical systems are better than complicated mechanical systems. Slab-on-grade construction is better than crawl space. Pitched roofs are better than flat roofs. Individual unit entries are better than common hallways.

**Is a community.** Residents value the opportunity to live here. All members of the community expect to be treated fairly and courteously, and this mutual expectation creates an informal but powerful force for community cohesion.

**Is subject to an appropriate, long-term, use agreement.** The availability of the property for long term affordable housing use is assured through a binding covenant running with the land. The long-term affordability of the property is not dependent on the identity or motivations of the sponsor, and is assured even if the property fails financially and undergoes a workout or a foreclosure. The length of the use agreement term and the level of affordability it requires are appropriate for the property, its target resident population, and the subsidies with which it is financed.

**Is physically sound over the long term.** The operating budget contains sufficient funds to operate and maintain the property to high standards, not just in the early years but over time. From the beginning, the property makes reserve deposits that are sufficient to fully fund expected major repairs and replacements.

**Does not rely on appreciation in value.** The mortgage financing is fixed rate and self amortizing, so that the property is not exposed to interest rate risk or refinancing risk. The property’s debt burden (from all loans, not just the first mortgage) declines over time, at a rapid enough rate to avoid the risk of over-leverage. The property’s long term physical and financial viability can be supported by the projected stabilized cash flow, even if this cash flow does not grow over time. This gives the property the potential to improve its affordability over time, but the flexibility to increase rents as needed to respond to unanticipated problems.

**Is financed appropriately.** By comparison with market-rate apartments, affordable housing requires lower rents and may require higher operating expenses. Moreover, affordable housing requires a reserve deposit that is adequate to fund 100% of reasonably expected major repairs and replacements.

Our unavoidably schizophrenic identity – pursuing an anti-poverty mission through a businesslike real estate system – often means that we act like bankers when we should act like social workers, and vice versa.

As a result, an affordable housing property generates a much smaller net operating income than an otherwise similar market rate apartment property, and can support only a very limited amount of mortgage debt. The remaining development costs must be financed with grants.

**Has an adequate operating margin.** This is not merely a matter of debt service coverage in an underwriting spreadsheet. The projected rents must be achievable, with room to spare. The vacancy and collection loss allowances must be reasonable and must recognize that real estate markets fluctuate. Projected operating expenses must be at or above the level that good management will need in order to operate the property successfully, not just in the early years when nothing breaks, but over the long term. There must be adequate debt service coverage, without regard to the amount of cash flow the owner is allowed to distribute. Basically, the property must be able to withstand the sorts of income, expense, and capital needs shocks that frequently impact affordable apartment properties.
focus on:

Multifamily Housing Excellence

Is financed through grant programs that combine flexibility, adequate funding, accountability and competition. Each grant program recognizes the full array of development costs that are reasonably required to produce the desired affordable housing. Where appropriate, multiple grantors will collaborate to create ‘one stop shopping’ grants for the development of unusual properties (e.g., mixed income / mixed use / service enriched) that would otherwise have to assemble multiple funding sources. Each grant program is capable of funding the entire gap between supportable debt and total development cost. Failure to comply with program requirements produces adverse results that are predictable and that occur rapidly. A successful grant program attracts a reasonable (but not excessive) number of highly acceptable proposals.

Increases rents in line with property needs. Initial rents are adequate. Subsequently, rents are increased modestly each year, in line with inflation in operating costs. Operating costs are well controlled but are not squeezed.

Is crime resistant. The property’s design incorporates ‘defensible space’ approaches. All common areas are easily observed from several different residents’ homes. Lighting is adequate. The management plan, and the budget, include initiatives to create, maintain and enhance residents’ social ties to each other.

Is in compliance with reasonable regulatory requirements. Wherever possible, regulatory requirements utilize market mechanisms such as incentives and disincentives. If the property utilizes more than one subsidy or financing program, program requirements are coordinated to eliminate conflicts and redundancies. Compliance is monitored through regular and standardized reviews, performed by qualified third parties who are trusted by owners, residents and regulators but who are independent.

Incorporates appropriate non-housing services. A successful affordable housing property provides opportunities to deliver no-cost and low-cost services that are needed by large numbers of residents and can be delivered effectively at or through the property. For example, properties for low income families may provide before-school and after-school activities for children, job search or job skill development for adults, or may simply provide space in which third party providers can deliver such programs. To the extent that the property itself should provide the services, the cost to do so is built into the property’s operating budget.

Generates cash flow for its owner. An affordable housing property doesn’t need to be wildly profitable, but it does need to generate at least enough positive cash flow to cover the owner’s asset management costs and to fund needed reserves. An affordable housing portfolio needs to generate enough additional cash so that the successful properties can support properties that are temporarily struggling.

So Why Aren’t These Properties The Norm?

It seems to me that...
It’s difficult to produce housing this good, even in the best of circumstances.
Existing financing and subsidy programs aren’t designed to produce housing this good.
We don’t yet have good benchmarks or good performance measurement systems.
Much of the conventional wisdom about affordable housing is not only unwise but backwards.
And, worst of all, as an industry we don’t set our sights high enough.
Excellence in Affordable Housing Ownership

by David A. Smith

Prepared for the panel: Who Are Our Producers? Characteristics of Excellence in Ownership Entities

Once upon a time, an affordable housing sponsor could prosper without being a great owner – insulated by a guaranteed income stream, residents that lacked practical choices, and quiescent regulators, the owner had few worries after initial rent-up. Today, affordable housing is harder to own and sustain than conventional:

- It is developed in more marginal neighborhoods and serves an economically vulnerable tenancy.
- It tends to be older and to operate with lower cash surplus margins.
- It faces a schizophrenic double mission, both financial and social, and is vulnerable to social mission creep.

And affordable housing ownership is getting harder. As mark-to-market works its slow-motion avalanche of changes, income is not guaranteed and, residents have many more choices. Meanwhile, with resources scarce, regulators are much more frugal when awarding funds and (properly) much more demanding once they have done so. As a community, owners – whether for or nonprofit, whether new buyers or long-standing holders – need to get better, and get better quickly.

Surprisingly, we have devoted very little effort to studying:

- What constitutes excellence in affordable housing ownership.
- What barriers to excellence we have built in to our programs and policies.
- What we can do to create a climate where ineptitude is punished, mediocrity languishes, and excellence thrives. This paper opens these topics for discussion.

How do we recognize capability in affordable housing ownership?

1. Results
Ownership capability is more than just being able to show pretty pictures and tell a good story; it is shown only over the long term as demonstrated by results at the property. There are six dimensions of affordable housing viability

   A. Physical – The property provides a safe, clean, habitable, defensible physical environment. It must be well cared for and it must look well cared for.

   B. Community – The property represents its own healthy little community of people.

   C. Operations – The property’s ongoing income sources exceed its recurring operating costs.

   D. Financing – The property has enough working capital to cope with the normal ebb and flow of receivables and payables.

   E. Compliance – The property’s compliance rules are equitable, creditable, observed, and enforced.

   F. Downstream responsiveness – Both rules and operators must have escape hatches or change procedures that can cope with on-the-fly redesign.

The property’s success across these six dimensions is seen in three ways:

- Sustainability over time. The property is viable as above over a 10-year or longer horizon.
- Resident satisfaction. Residents like living in the property and seek to remain.
- Allocator satisfaction. Resource providers
believe they are getting value for money.

2. Owner Behaviors
In our experience, some owner behaviors are almost always leading indicators of excellence:

A. No bad surprises – They seldom bring bad news surprises because they know their properties and markets well. If bad news arrives, the owner brings it, usually with a thoughtful exposition of both the causes and the potential solutions.

B. Property improvement over time – They improve their properties over time. Old ones look just as good as new ones.

C. Advocates for the property – They create equal levels of discomfort in all stakeholders: residents, regulators, the community, partners. Ideally they create equal levels of (modest but persistent) discomfort in all other stakeholder groups. Being an owner is not a popularity contest; it consists of diligently, consistently, and wisely doing a series of unpopular visible things (raising rents, evicting lease-violating residents, challenging regulators on operating budgets, reinvesting rather than distributing cash flow) because they are the right thing to do.

D. Tight financial control and accurate reporting – They know where every dollar comes from and goes to and can report that information in many ways on very quick turnaround.

E. Commitment to learning and innovation – They constantly seek new ideas.

F. Unsatisfied – They are seldom smug, usually unsatisfied.

G. High ethical standards – There are many easier ways to earn a living. Those who succeed in this field do so out of a sense of personal and corporate satisfaction that goes hand-in-glove with a strong ethical sense.

3. Skills or Attributes That Seem Inescapably Necessary
In our experience the following skills or attributes are inevitable byproducts of the path to expertise in ownership:

A. Mission heart – Wanting affordable housing to succeed as affordable and for benefit of the residents.

B. Business head – Rigorous, indeed confrontational, approach to the myriad business decisions a property demands….These two attributes are neither independent of one another nor are they in conflict. Rather they are both necessary; absence of either dooms the owner to mediocrity or worse:

• Mission heart with no business head generates good feelings early on but spends far too much money and the property either deteriorates or needs chronic income supplements.

• Business head with no mission heart makes a profit but creates no sense of community and destroys its goodwill with residents and regulators.

Why is Outstanding Ownership So Scarce?
Some possible culprits:

1. Development is complicated and earns the big fees; ownership does not. Cash flows are constrained by regulation or stripped out to pay soft debt. Ongoing ownership earns modest fees (and asset management is not universally recognized as a legitimate cost item), so ownership skills are not developed with the same zeal.

2. Until recently, we thought ownership was easy so allocators seldom emphasized ownership capacity (as distinct from development).

3. Rent-setting mechanisms tend to starve a property of resources, especially if the original development was capital-squeezed.

4. Markets and property needs change much faster than owner capacity.

5. Allocated awards go to fence-swingers not contact hitters – When only one in four properties is funded, to win award, an applicant often feels compelled to use the most optimistic projections, not the most realistic ones. Allocators thus risk funding properties based on nonsustainable rosy scenarios.

6. Ownership changes hands very slowly. Many owners who would like to cannot do so because either (a) no one can afford to pay their economic equity, or (b) there is little if any equity and the investors will not leave unless they have their federal contingent exit taxes paid.

7. The mission and business camps fear one another so the normal cross-pollination that should occur is resisted. And few of their advisors treat it in the other camp.

8. Mission and business sponsors seldom partner because they see themselves as competing for scarce resources or they fight over the talisman of “control.”

9. Proven capability is seldom rewarded. Indeed, diversity-oriented allocation plans can have the unintended consequence of penalizing capable own-
ers in favor of “giving someone else a chance.”

10. *Winner-take-all allocation systems* encourage over-subsidy and gold-plating on the front end rather than economizing and emphasizing streamlined operations.

11. *Absent cash motivations for good performance, we devolve to process-oriented regulation* and thus train owners to follow the rules rather than achieve outstanding results.

12. *Few people can distinguish ownership (asset management) from property management.* As a result, property management often serves as a caretaker surrogate for property ownership capacity.

**Where should we be trying to head?**

Ideally, we should have properties owned by entities that have all these attributes:

1. **Centralized decision-making** rather than dividing it among multiple stakeholders and groups who often have competing if not downright contradictory objectives. Innovation is a key to remaining competitive and efficient, and fractured decision authority destroys innovation.

2. **Private investment for inherent checks and balances.** At the same time, unchecked decision-making invites abuse. Instead the private-investment model, where private capital is channeled via tax-motivated investment, has provided ongoing oversight and compliance monitoring without government involvement. There thus is an ongoing tension between the value of centralized decision-making and the benefits of an internal check and balance provided by the investors’ involvement.

3. **Holders not converters.** Owners who want to keep the property affordable under a viable economic configuration so that they are not looking for upside predicated on a market conversion. (It has taken almost 30 years for this view to evolve. The original programs contemplated a finite term of affordability – 15 or 20 years – and explicitly made residual value after conversion a critical ongoing owner’s incentive. When the term ran out, inevitably a political and policy struggle arose as owners sought to realize on their contractual rights and unprepared government sought to prevent conversion. A better model provides permanent affordability but makes that ongoing affordability economically viable so that conversion is no longer an essential action.)

4. **Viable ongoing economics** so that holder-owners are properly compensated for holding.

5. **No amateurs need apply.** Only owners who are capable across all the major disciplines.

6. **Efficient use of resources,** whether scarce or freely available.

**How might we get there?**

The following ideas are offered as brainstorms. They are in no particular order, they are not necessarily feasible, they are not necessarily all internally compatible, and they are not necessarily my personal views. But they are logical possibilities and thus worth exploring:

1. **Differentially allocate resources** in workout, preservation, and sale, not by arbitrary monikers like for-profit or nonprofit but by ownership capacity.

2. **Overhaul financing** to emphasize lower debt and better cash flow.

3. **Incentivize reinvestment** so that a healthy chunk of available cash flow is redeployed into replacements and new improvements that could not have been anticipated originally.

4. **Create certification/ranking systems** that make transparent who is doing a better job and who is doing a worse one.

5. **Build in participant transferability** so that partners who want out can sell their position to those who want in, and those who are not doing the job can be and are rapidly removed before their failure damages the property or takes its operations hostage.

6. **Publicize results** across geographies and program types.

7. **Offer contingent-tax one-time amnesty.** Offer a contingent-tax-relief amnesty window for transfers from unsuitable owners (some of whom are hanging on just to defer taxes) to preserving entities (who commit to long-term affordability and economic viability).

8. **Stop differentiating for-profit from nonprofit.** An owner is an owner, and it either does a good job now or it does not.●

Further discussion of these topics can be found at our Web site, www.recapadvisors.com, in the articles *Renewed Affordability: A Paradigm for Existing Affordable Housing* and *The New Breed of Affordable Housing Owner.*
The financing of affordable housing has evolved tremendously over the last twenty years from the old HUD financing programs to today’s low income housing tax credit transactions. Transactions have increasingly become more complex due to the sophistication of the market combined with the dwindling resources in the industry.

As an industry, we all need to focus on some key issues to ensure the continuity and sustainability of this market.

The Ten Commandments of Creating Long-Term, Sustainable Affordable Housing

1. At the end of the day, affordable housing is real estate.
2. It is possible to overbuild affordable housing in certain markets.
3. Pay attention to cash flow; “value” may be misleading.
4. People operate apartments and repay debt, not the properties.
5. Prepare for the unexpected; interest rates will not stay static.
6. Subsidy is not the same thing as equity.
7. Bailing out yesterday’s properties is bad for everyone.
8. Remember the lessons of the past.
9. Plan for the “back-end” at the beginning.
10. Don’t take CRA for granted.

1. Affordable Housing is Real Estate

Above all, affordable housing is real estate – as lenders and equity providers we need to put real estate back into the equation. Yes, affordable housing can provide necessary below-market units to the market but fundamentally; affordable housing is multi-family real estate subject to all of the vagaries and competitiveness of the market. As a lender and investor, we need to be concerned about future competition, market employment trends, project amenities, availability of excess land etc. Market studies may be valuable but we need to provide standards for these documents to assure quality. We need to be concerned about penetration rates in certain markets – what are the “right” levels of demand to ensure feasibility. Building new tax credit projects to compete with older tax credit projects does not make sense. Too often, the philosophy of “if you build it, they will come” transcends the affordable housing market. We have seen that many early projects that were targeted to tenants at 60 percent of AMI have failed especially in softer real estate markets where 60 percent AMI rents are truly market rents or above. Both investors and lenders have become comfortable with affordable housing rents that are a minimum of 10 percent below market. However, real estate markets certainly can shift and 10 percent below market can erode quickly.
2. Overbuilding Affordable Housing
It is possible to overbuild affordable housing. Investors and lenders hungry for deals haven’t been concerned about overbuilding tax credit units. However, with the increase in the tax credit and the bond cap, we may begin to see tax credit projects compete for tenant base. Amenities may become a more crucial factor in the competitiveness of affordable housing projects in certain markets. The project needs to provide the appropriate services for the population in order to compete in the general market should market rents fall.

Real estate development typically assumes some level of appreciation. Not only is a stable net operating income (NOI) important, but an increasing NOI as well. Some sponsors, due to mission driven concerns, may choose not to increase rents despite increases in the market and median incomes. This may further unfeasibility and reality may force these projects to increase rental rates. We need to evaluate markets where median incomes have not risen in proportion to the rest of the country. In those markets, expecting increasing rents may not be feasible. Demand factors also come into play – rents cannot be increased in a market where there is not sufficient demand to support those rents. Subsidies are not infinite. Thus, increasing market rents is a source for future rehabilitation, for increases in expenses and for unexpected issues that arise, such as the rising energy costs faced in California.

3. Focus on Cash Flow; Value may be Misleading
Financial stability is key – with affordable housing it is important to recognize that the stream of rental income coming to the project may not substantially increase, but certainly expenses can accelerate. Therefore, great consideration must be given to debt coverage especially in any market. A cushion on NOI of 10 to 15 percent can whittle down to nothing very quickly. The reality of projects with a predominance of three and four bedroom units is big operating expenses. NOI must be structured to reflect the wear and tear on projects created by a large population of children. Security is also a drain on cash flow. The need for security at a project reflects more on the need to insulate the project from outside forces. Neighborhood renewal is not overnight, as such; many projects may require an extra watchful eye. Utility costs may also become an increasing drain on project resources. Low-income
tenants will not be able to absorb huge utility bills. Replacement reserves are crucial – certainly one cannot rely on the cash flow to generate sufficient monies to fund major repairs unless they are budgeted.

The real estate property tax exemption remains a crucial unknown in the industry. In many states, the exemption is a “given” – however, lawmakers could eliminate this favorable treatment to ensure the stability of NOI. Both lenders and investors must undertake careful analysis of the likelihood of this type of event. As an industry, we must be careful not to abuse this privilege – the abatement of taxes is a crucial financial resource but has great impact on the tax base.

Lenders have a tremendous responsibility for their overall portfolio performance. In many ways, the affordable housing market segment has had a lot of lenders chasing a limited number of deals. Lenders need to be diligent about underwriting to prevent project failures. Loan to value truly has very little meaning for affordable housing. Low-income housing tax credit projects do not trade in the general market – therefore, a cap rate analysis is also of very little value. The value of favorable financing on a tax-exempt bond transaction has also very little proven value in a sale. Adequate debt coverage becomes critical.

4. People Repay Debt not Projects
Project sponsorship is another key to long-term sustainability. Strong project sponsors understand their marketplace, focus on asset management, screen tenants appropriately and are committed to the long-term success of their project. Unfortunately, due to the equity and capitalization structure of affordable housing projects, there are barriers to entry into the business. As such, tenure and track record in the business is key. Overall, strong sponsorship cannot be categorized into non-profit versus for-profit developers. There are strong and weak non-profit sponsors as well as strong and weak for-profit sponsors. The quality of the development entity is reflected by the staff, the board of directors, their experience and their financial health.

5. Prepare for the Unexpected; Interest Rates will not Remain Static
The secondary market’s role is to provide guidance, standardization and ready liquidity for lenders to encourage the production of affordable housing and to mitigate its perceived risk. The discipline of underwriting guidelines encourages long-term sustainability by attempting to size debt effectively without over-leveraging and therefore, burdening the housing. For instance, Fannie Mae’s interest rate reset is set at an 18 year term versus an industry that has now accepted 10 year interest rate resets. Many projects will be impacted by interest rate resets during the tax credit compliance period. What will occur in year 10 if a project is faced with 100 to 200 basis point increases in rates? Who will cover the shortfall? We are not currently in a rising interest rate environment, however, this could well occur. Rising interest rates will greatly impact investor returns as investors may be forced to cover debt shortfalls or make reductions in principal to protect their investment. Lenders may be forced to restructure loans to prevent foreclosures.

6. Subsidy is not the same thing as Equity
The public sector also provides a significant role that can help to ensure long-term sustainability. The allocation process for tax credits and bonds should be based upon criteria that ensure quality housing. Subsidy money serves a most crucial role by filling underwriting gaps that cannot be met by other sources. Subsidy funds are increasingly important in a rising real estate market, as projects cannot reach lower income levels without gap funds. The public/private partnership in affordable housing is invaluable – debt and equity providers have significant economic hurdles to achieve that are not required by public subsidy. Subsidy funds greatly ensure the economic success of affordable housing by providing the gap money necessary to lower the costs of the project or by increasing the NOI with operating subsidies. For example, it is absolutely infeasible to build housing for mentally ill at 30 percent of area median income (AMI) with merely low income housing tax credit equity and debt financing. A project with rents at that level should be structured to be debt free to encourage project cash flow to provide necessary services for the tenants. Subsidy for these projects is a necessity to ensure feasibility. The public sector can also be the conscience – the monitoring and oversight by public agencies serves as a watchdog over the industry.

Equity in tax credit projects is like conventional real estate equity even though return on equity is not typically in the form of cash returns but rather tax
benefits. These tax benefits, tax credits mostly, must still provide a sufficient economic incentive to the investor – a return that is comparably better than alternative investments. Sponsors of tax credit properties structure their investments in a variety of creative ways to derive market returns. Fannie Mae, as the largest equity investor and debt provider of housing that qualifies for the low-income housing tax credit, views large losses, even on paper, as a negative reflecting a weak financial structure of the project. Although its equity investment horizon is only 15 years, Fannie Mae seeks investments with the long-term viability and a sponsor’s intention of permanent affordability.

There are disconnects between the equity and the debt side. For example, 10-year rate resets may make sense for lenders, but at the 10-year mark, the investor would suffer tremendous recapture and penalties should a foreclosure occur. If the project could not support the rate increase, many lenders presume that the investor will solve the financing gap. However, some equity investors feel strongly that they are not appropriately paid for assuming the balloon risk on these projects and will not invest in such deals.

7. Using Current Allocations to Bail out Past Problems – Bad for Everyone
Allocation processes vary across the nation. Although most of the tax-exempt bond and tax credit programs are competitive, states have chosen a variety of ways to allocate the resource. States need to provide more “one-stop shopping” for housing resources and link subsidy and compliance programs together to lessen the burden on sponsors and development costs. States may need to begin to look closely at the resource provided by bonds and credits and evaluate how to address restructurings and refinancings of existing projects, particularly those that may not be performing. Today’s funding resources are limited, while demand for affordable housing remains high. What will happen to the production of new affordable housing units, if the tax credit and bond caps are utilized to restructure problem projects? Many tax-exempt bond projects are merely a refinance or purchase of a project with lower financing costs and no developer equity. In exchange, the market receives a “light rehab” of an existing project and rents that are restricted. In some markets, 60 percent of median income rents may be equal to market rents, therefore, limited public benefit is provided by the use of the bond. Allocations to these projects may not be the best public policy in light of the housing shortage of today.

8. Remember the Lessons of the Past
What has been the cause of troubled projects? They are the same reasons for the failure of any market rate multi-family project – poor underwriting including misjudging expense factors such as security and repairs, market issues from increased competition to employment losses, rents that didn’t increase combined with increasing expenses, underestimating rehabilitation needs for long term sustainability etc. As such, it is incumbent upon lenders (and investors) to “just say no” – oftentimes, realism needs to be injected into the equation. Lenders need to monitor critical signs of project deterioration – deferred maintenance, tenant turnover, vacancies, new market competition, rising expenses, decreasing net operating income, etc. Lenders need to take a hard look at the “light rehabs or spruce-ups” which are occurring. It is crucial to ensure that the useful life of a project be extended through the financing period at a minimum. Lenders cannot ignore warning signs even if the debt service is being met. It may be prudent to restructure the financing early to avoid future problems.

9. Plan for the Back-End NOW
As an industry, we are faced with many issues of
the long and short term that impact long-term sustainability. The first issue is what will happen to low income housing tax credit projects when the tax credit investor has no more financial incentive in the deal. The rental restrictions for most projects will not end for another 15 to 40 years beyond the initial 15-year period when investors receive their benefits. So-called “back-end” structures are numerous ranging from giving the project to the sponsor to structures that include the payoff of debt plus appreciation to the investor. As an industry, many projects may need new allocations of tax credits or tax-exempt bonds to be financially viable. Using the tax credit program to restructure older projects will greatly impact the future production of new affordable housing. The concept of preservation will be greatly expanded.

At the end of the fifteen-year tax credit benefit period, the reality for most projects will be:

- Very little of the long-term debt associated with the project will have been repaid;
- No ability to increase rents given minimal increases in HUD median incomes;
- No significant real estate appreciation given flat rents;
- Increasing expenses due to project wear and tear;
- Minor rehabilitation may be needed using replacement reserves, if available; and
- Interest rates may have risen.

What should the exit strategy be for affordable housing projects? The lesson of the HUD 236 program has not been learned – many of the resources available to subsidize affordable housing are being utilized to preserve the units created under these old HUD programs. We may learn that although we would like to encourage long-term affordability, it may not be possible without an increasing level of resources. Absent more subsidies, converting projects to market rate developments may be the only viable alternative.

10. Don’t take CRA for-granted

What will occur if project sponsors do not produce quality housing? Workouts, restructures, foreclosures, etc. As a result, banks will begin to shy away from providing new financing for projects. Although the Community Reinvestment Act (CRA) is a reality for financial institutions, compliance with CRA can be met with other products such as small business loans, credit cards, home loans etc. There has been a decrease in the impact of CRA on banks over the last couple of years with the reduction of merger activity. If this trend continues, there’s a risk that the increased credit and bond caps may go unused.

Conclusion

In summary, to ensure long term sustainable affordable housing, lenders and investors must focus on providing some discipline to the marketplace to prevent the failure of projects. Focusing on underwriting, real estate market factors and sponsorship will create successful projects that can be sustained in the future. This discipline involves the sizing of debt and equity to provide appropriate returns and ensure realistic cash flow.

The challenges we face in creating long-term sustainable affordable housing are great, but worthy of solving. We need to come together to address these issues head-on.

- Is long-term affordability congruent with long-term sustainability? Is it possible?
- Subsidies are crucial to long-term sustainability, but unfortunately they have a finite life. To create incentives for longer-term subsidies, should appreciation become the “return” for the risk taken by the subsidy provider? If so, how do we ensure both a return and an incentive to the sponsor to operate these projects?
- How do we prepare and underwrite for unexpected events such as earthquakes, rising utility costs, changes in legislation?
- Is mixed income housing the answer to provide units targeted to renters with incomes below 50 percent of AMI? Does that mix of tenant incomes work?
- How do we deal with or change the inherent conflicts between the tax credit rules and affordability and project economics?

Can we merge some programs together to encourage efficiencies, compliance monitoring and reduce complexities? •
At-Risk Capital and the Creation and Sustenance of Excellent Preservation Entities

by Michael Bodaken

Prepared for the panel: Production Finance: Risk Capital for Preservation Acquisition

“In the end, a vision without the ability to execute is probably a hallucination” (Steve Case, quoted in *The Mind of the CEO*, Basic Books, 2001)

Over the past few years, much has been written about the vexing dilemma of housing poor renters in a time of prosperity. Many of us have taken the time to describe the real estate “Catch 22” that occurs when rents outpace inflation. The nation’s affordable housing need actually deepens in a time of prosperity. That profound crisis, together with the impending expiration of Section 8 contracts covering well over 1 million apartments has rightfully turned our attention toward “preservation” of all types of affordable housing.

Unfortunately, not nearly so much has been written about the capacity of purchasers to preserve and improve thousands of units of affordable housing. This paper focuses on that issue, with particular attention paid to how excellent nonprofit housing providers are created and, once created, sustained. I essentially argue below that the type of “at risk” capital deployed to create a sustainable entity is different than that type of capital required to sustain an “excellent” not-for-profit real estate company.

Finally, a word about “sustainability and the role of government.” I very much believe that government has a unique role to play in both providing financing for properties and helping to create sustainable capacity, especially in the not for profit sector. It is not my thesis, however, that the government guarantees sustainability. Both the properties and the owners must be “long term sustainable” without reliance on government funding. Otherwise, what’s the point?

I. The Case For Building Sustainable Preservation Organizations

The case for creating capacity is an easy one. During the next five years tens of thousands of apartments will be placed on the market by owners of governmentally assisted and/or insured housing, in particular housing now assisted by HUD or Rural Housing Services, and/or properties with expiring low income tax credits. Moreover, portfolios of unsubsidized, but affordable, properties are coming on the market in an increasing number. According to the Joint Center for Housing Studies at Harvard, over the past four years we have lost over 1 million unsubsidized affordable apartments to market forces or deterioration.

As current owners look for an exit from their affordable multifamily investments, the demand for capable, mission driven, owners of multifamily housing – particularly housing that shelters very low-income households and seniors – is embarrassingly apparent. A core national policy objective should be
the assembly of a new group of interested, vigorous owners willing to invest new resources into this housing. How do we create and sustain such entities? What institutions will invest in these new owners?

We start with this premise: Strong, business minded/socially motivated, preservation entities (either nonprofit or for-profit) are essential to the preservation and improvement of affordable housing. Indeed, any business model for sustainability requires the presence of such entities. Put another way, we can’t save affordable housing unless there are capable stewards willing to take on this important responsibility.

Unfortunately, it is precisely this – a large, diverse community of capable purchasers dedicated to a mission of affordability – that is lacking in today’s market. We desperately need a dramatic infusion of venture capital to create new preservation organizations and expand existing preservation entities. For that, we need capital. What types of capital can be deployed for the formation of such entities? For their growth and expansion?

The political economic environment in which we operate

Like all things, capital is much affected by the political-economic environment in which it operates. The situation in which we find ourselves is fascinating. One would have to search hard to find a more uncertain environment. Exogenous risks include, but are not limited to,

- interest rate risk,
- the risk attendant to working with government agencies that are inherently political and often unpredictable;
- credit risk; and
- All the long term risks of late-life property acquisition.....new property competition; potential of new environmental risk materials; market obsolescence, neighborhoods that generally are not ones in which properties are rising rapidly, etc.

Perhaps the most complicated of these is the risk that the government, once considered to be certain, if somewhat bureaucratic and plodding, partner, has become a most uncertain partner. Again, I am not asking HUD to bail organizations out of incompetence. Every time HUD changes hands, the bureaucracy recalibrates andreshapes itself at the upper end. While all of this goes on, the middle and lower echelons ossify. Ideology, rather than common sense, often dictates the substance of legislation and/or regulations affecting this housing. What market player in its right mind would want to be associated with such an effort?

At the same time, the business and social opportunity is simply unprecedented. I believe a rational argument can be made that, apart from health care for all of our citizens, our inability to resolve how to house poor renters is the most crucial policy issue of our day. The fact that poor people don’t vote, particularly poor renters, doesn’t make it any less crucial. Moreover, the issue is easy to write large.

- Literally hundreds of thousands of apartments, many of them in your hometown, can be found on the Internet.
- And all of them have some type of contract or subsidy expiring in the next five years. Most of them happen to house poor senior and families.
- Billions of dollars in tax credit equity, debt and other financing awaits he/she who resolves this issue.

Hence, the siren call to “grow our own.”
II. Seeding The Creation and Operations Of a Preservation Business Entity

Any business must have both “start up” funds and initial operating capital to fund its initial operations. At its most basic level, the creation of these organizations, like any business, must have a rational business plan. This plan must, at the very least, demonstrate to “seed investors” of that operating capital a reasonable rate of return and return of their capital within five years.

Assuming such a plan exists, and the new entity intends to conserve the housing as affordable over the long haul, promised returns won’t be dramatic. If drawn up honestly, without any start up grants, the business plan, with appropriate hiring, administrative expenses and real estate due diligence costs associated with the start up acquisition effort, will forecast a loss of revenue over the first two-three years. Organizations like NHT/Enterprise and others forecast potential losses of nearly $1 million over the first three years of their existence. Thereafter, returns should not be greater than 10 to 20 percent per annum plus repayment of original principal. That translates into a return rate of anywhere from 1-7 percent and return of investment over the first five years of existence.

Available venture capital typically requires profitability sooner, and high double-digit returns after three years. This type of return is, I submit, antithetical to the provision of long term affordable housing. What is required is non-speculative, “steady Eddie capital.” Further, venture capital is far less venture-some when asked to take on operational, as distinct from real estate, risk. Finally, there is a legal issue: Venture capital, by its nature, typically asks for an “equity stake” in the newly capitalized organization. Nonprofit organizations cannot typically provide equity stakes to for profit partners. Hence, traditional venture capital is ill suited for the “start up” or creation of preservation entities. Even a for-profit corporation dedicated to this mission won’t be able to provide returns commensurate to the risk demanded by venture capital.

However, a number of sources are well worth exploring. Indeed, alternative finance sources are how our nation typically creates socially minded entities.

1. The NCDI Model

The prudent matching of government and foundation awards could help stimulate the growth of preservation oriented businesses. Here, history serves as an excellent teacher. When our nation couldn’t find “a magic pill” for urban decline, we decided to foster the creation and sustenance of local, community development corporations (CDCs). These organizations promised success where federal, top down solutions had failed. In 1990, a dozen national foundations joined the federal government in creating the National Community Development Initiative (NCDI). Over the past decade, approximately $25 million annually in low interest loans and grants have been pumped through Enterprise and LISC into CDCs in 25 cities.

There is no theoretical reason why this model of “risk capital” couldn’t be replicated to build and sustain preservation entities. Of course, we would have to determine what types of preservation entities should be promoted. For example, I’m not sure that a CDC approach to this issue is necessarily the only means to achieve success. While there are many strong, capable CDCs in the nation who should be encouraged to preserve affordable housing, there is not necessarily a one to one match between where housing stock needs to be preserved and where a capable, local CDC is located or has preservation as part of its mission. That means we need both CDCs and national and regional organizations willing to take on this responsibility. Nevertheless, a preservation initiative between the federal government and major foundations could well be the type of financing that jump-starts this industry.

2. The Federal Grant Model

To the extent we are discussing the preservation of HUD assisted or insured or Rural Housing Service-financed housing, the federal government has a significant financial and, arguably, moral responsibility. It was, after all, the federal government that financed and assisted in the creation of these 3 million plus apartments. And it was the government which put in place the perverse incentives of increasing Section 8 subsidies beyond market to pay for bloated budgets, while at the same time starving owners from increases needed for the rehabilitation of the stock itself.

No one seriously disputes the government’s role. Indeed, the federal government has determined, as a matter of policy, that many of these apartments should be saved. Over the past two years, HUD has developed a number of tools making it simpler for nonprofit owners in particular to save these properties. However, capable, sophisticated entities must be
created and sustained to use these new tools and to make this preservation policy more than a dead letter.

In 1999 and 2000, the 106th Congress considered wide ranging elderly and preservation legislation dubbed “HR202.” Among its many other provisions, HR202 provided that $10 million would be set aside for a national competition for preservation oriented nonprofit entities. HUD would have administered this program and any nonprofit, from a local nonprofit to a major intermediary or nonprofit owner, could apply for the funds. This grant could be used for operating support for nonprofit preservation entities. As the new Administration determines its budget and as Congress debates the HUD/VA Appropriations measure for Fiscal Year 2002, we should demonstrate the need for significant grant support for capable preservation businesses, particularly nonprofit organizations.

I am not urging that government pour free money, year after year, into organizations that can’t compete. However, government does have the responsibility to at least contribute the resources needed to create sustainable preservation entities.

3. The Internal Seed Model
After determining the need for a ‘niche’ housing preservation organization to purchase larger properties and portfolios where there was no local interest or capacity, the National Housing Trust and Enterprise Foundation made five year internal “program related investments” to launch NHT/Enterprise Preservation Corporation. These organizations’ willingness to do so attracted others, including the MacArthur Foundation, willing to support internal operations over the first five years of its existence. Similarly, the National Capital Corporation has been “seeded” with $2 million in grant funds from its parent organization, the Neighborhood Reinvestment Corporation. NCC is set up to act as a “private” intermediary, providing technical assistance and predevelopment loans to a number of larger, competent multifamily producers in the NeighborWorks® Network.

III. Sustaining The Preservation Entity.
After the entity is established, an entirely different picture emerges. In marked contrast to the need for “special” alternative financing or grants to create or
sustain the operations of a new start up, once the entity has a proven track record, there are any number of ways to justify its continued success. In particular, to the extent the entity relies on cash flow to support its internal growth, the successful purchase and operation of affordable housing will sustain its operations.

As we all know, in any particular real estate transaction there is a simple relationship between the expense of available capital and the risk to which it is being exposed. One pays a much higher premium for capital that takes a much higher perceived risk. Here, unlike the start up operation, the growth and expansion of the preserving entity is much easier to finance. Based on perceived real estate risk, capital is willing to engage in a much more open and fruitful discussion.

Whenever a deal is on the table, the conversation turns to internal risk adjusted returns. Real estate professionals who would no more invest in a start up business than fly to the nearest galaxy are ready, willing and able to make a market rate loan on a multifamily asset. The difference, apart from the obvious, is that the capital markets with which we typically deal are much more interested in real estate than in internal operations.

It is the real estate transactions, and their related development fees and cash flows that support and sustain operating preservation organizations. Consider the following illustrative examples, all of which help deals get closed and enhance the bottom line for the preservation entity:

- **Bridge Finance:** National Housing Trust/Enterprise and other nonprofits often want to tie down properties through a credit facility. The concept is to take down the asset with a Revolving Fund, then take out the fund within three years. Take-outs will be facilitated with either 501(c)(3) bond financing or through a combination of private activity bonds and 4 percent tax credits. Financial services firms who can manage interest-rate risk and who realize the synergies of both bridge and permanent financing will invest in such funds.

- **Permanent Financing:** Lenders with investment banking capacity can provide 501(c)(3) take out financing for the bridge loan. If the bridge product for the property has been underwritten by the same financial services institution, the investment banker and original underwriter should be able to better manage interest-rate risk, and bring lower cost financing to the ultimate consumer – in this case, the nonprofit purchaser. To the extent these efficiencies are realized in the marketplace, lower-cost financing should translate into a more affordable multifamily housing product in the form of lower rents.

- **Letters of Credit:** Some lenders provide standby letters of credit to help enhance the credit rating of 501(c)(3) bonds. This is essential when used with so-called “Lower Floater” type bonds where the interest rate of the bonds varies. To mitigate risk, the purchaser needs to buy a cap on the rate.

- **Direct Purchase of 501(c)(3) Bonds:** Some financial institutions will privately purchase the 501(c)(3) bonds for their own portfolios, lowering transaction costs. For example, Fannie Mae and others directly purchase 501(c)(3) bonds.

- **Purchase of Tax Credits:** Low Income Housing Tax Credits are increasingly being used to help purchase and renovate existing multifamily housing. The same firm that provides the bridge and the take out financing can purchase the property’s tax credits. A financial institution could purchase the tax credits and extend the loans in these situations.

### Conclusion

In the life of any affordable, multifamily property, capital infusion and fresh, invigorated ownership is required. Available real estate capital and competent stewardship are necessary for that to take place. We focus most of our attention on the “deal capital.” Let’s not lose sight of the need to build preservation entities. Otherwise, our vision may turn out to be nothing more than a lofty, unrealizable dream.
Those of us in the nonprofit housing development business are in it because we generally believe that a decent, affordable home is the platform for helping low-and moderate-income people move into the mainstream of American life.

After a few decades of practice, we seem to know how to build the platform. But while providing affordable housing is a noble thing by itself, many of us have taken on the challenge of adding services to promote family self-sufficiency. So what about this human development part of our housing development vision? How does the home actually lead to the mainstream? What should be the focus for this part of our work? And how do we pay for it?…

Focus

Human development activities are generally thought to include everything – from prenatal programs to soccer leagues to science clubs to drug-abuse prevention to job readiness to home-ownership counseling to site-based health care for seniors – and anything else that a public or private funder is or can be persuaded to believe will remotely help the poor.

Yet the everything-and-anything approach doesn’t necessarily lead to the promised mainstream. More often than not, it perpetuates a patchwork of well-meaning but disjointed programs, which too often add up to little for the intended beneficiaries. It also fails to prioritize a set of activities with realistic outcomes that can be cost-estimated, budgeted and assessed for success.

If this scope of activity doesn’t get the results we want, what does? In our work with public and assisted-housing residents we believe three things are critical: (1) offering case management to families in our housing; (2) focusing the case management on employment and income; and (3) helping families build financial assets for the future.

Our case management uses the methods of social work to achieve narrow, concrete, economically focused goals for families. It involves engaging well-trained professionals – as an augment to and not necessarily a part of property management – to help residents of our housing mediate the maze of human services out there and advance their family plans. And these plans should be principally focused on jobs, jobs, jobs. We believe what William Julius Wilson has shown in his research to be right:

Employment provides coherence, structure and purpose for those not in the labor market. It is really the only way for them to achieve a family-supporting income that can pay the rent, build a cushion for contingencies, cobble together a down payment on a house or realize other dreams.

Beyond the jobs themselves, there is the need to facilitate access to a range of supports that make work pay – from making sure that residents take advantage of the Earned Income Tax Credit each year to getting their children in the state child health insurance program, to tapping available subsidies for child care and transportation.

The glue that holds all this together is a case man-
agement approach embedded with a solid workforce-employment development methodology. One of the most proven approaches we have found was developed here in Chicago by an organization called Project Match, which has a 15-year plus track record in helping public housing residents succeed in the job market. My organization is fortunate to have a working partnership with Project Match. LISC is also beginning to work with Project Match in Chicago.

Finally, there should be a focus on building tangible financial assets that afford families meaningful choices about jobs, housing, schools, and supporting their children. There are lots of ways to do that, from mobilizing our friends in the financial services industry and foundation community to help capitalize savings or individual development accounts; to supporting children in the kind of academic performance, financial planning, and “resume building” that leads to two- or four-year college; to preparing residents for homeownership or small business ownership; to increasing financial literacy and access to mainstream banking services.

From our perspective, these are the basics. Other human services should be aligned to them. Day care slots, transportation assistance and even substance abuse treatment should be attached to workforce-employment development programming. Family development should always have a goal of building a sustainable income for a family. Educational enhancements ought to be primarily targeted to building the skills of adult job seekers and out-of-school youth. Where a minimum wage employment base is the norm on a property, education enhancements can focus clearly on the academic success, financial planning, and “resume building” that leads deeply skewed to serve families under 50 percent of area median income.

We believe what William Julius Wilson has shown in his research to be right: Employment provides coherence, structure and purpose for those not in the labor market. It is really the only way for them to achieve a family-supporting income that can pay the rent, build a cushion for contingencies, cobble together a down payment on a house or realize other dreams.

Welfare Reform: Pushing Housing Providers In New Directions

In the wake of welfare reform, assisting residents to succeed in employment and build assets is now an essential part of the work of creating sustainable housing and strengthening neighborhoods. Resident success in employment is critical if we are to meet steadily rising operating costs from rent increases rather than federal subsidies, to continue to provide excellent quality housing over time, and to maintain housing assets that contribute to the economic and social strength of the neighborhood over the long term. But consider three recent realities:
For better or worse, the nation has adopted a new social policy under which able-bodied adults are expected to work, and must do so to qualify for transitional assistance during periods of unemployment. As the first wave of five-year welfare time limits draws near this year, we must work to mitigate major social and economic disruptions at our properties.
agree to further subsidy levels in a development deal if one of the uses of funds is to help support residents to succeed in their tenancy. Operating budgets, at least those supported by project-based rent subsidies or public housing operating subsidies, can include a resident services coordinator in a base budget under a HUD ACC or HAP contract. Operating budgets in

...assisting residents to succeed in employment and build assets is now an essential part of the work of creating sustainable housing and strengthening neighborhoods. Resident success in employment is critical if we are to meet steadily rising operating costs from rent increases rather than federal subsidies, to continue to provide excellent quality housing over time, and to maintain housing assets that contribute to the economic and social strength of the neighborhood.

LIHTC projects can sometimes include incentive management fees that can be used to enhance site services.

When acquiring HUD-owned, Mark-to-Market or other troubled properties there is often an opportunity to leverage operating commitments from owners and financial sources. In more than a few of our deals, we’ve been able to secure $50,000 to $250,000 per year from these sources. At Plumley Village, for instance, a 450-unit HUD-owned development Community Builders acquired in Worcester, we negotiated $250,000 annually for resident services, taken from net operating income prior to servicing the HUD debt.

**Fees:** Think like a for-profit developer. Substantial fees can also be earned in structuring and managing capital pools that channel tax-driven investor capital into LIHTC projects or commercial development under the New Market Initiative. LISC’s National Equity Fund and the Enterprise Social Investment Corporation have earned considerable fees from equity syndications for a while, but many large-scale developers can also do this. Fees can be earned from syndicating not only LIHTC but also Historic Credits, New Markets Tax Credits, and Work Opportunity Tax Credits.

Developers can earn loan origination fees and interest rate spreads on internal financing such as equity bridge loans, project predevelopment loans, construction loans, mini-perms, and permanent loans. And why not think about structuring fees as incentives for successfully performing both physical and human development work? Perhaps a fee structure could be proposed to financing sources where a developer earns, over time, 8 to 10 percent on development and 5 to 8 percent on service activities.

**Financial Structuring:** Think like a banker. Program Related Investments (PRIs) from foundations or CDFI-subsidized bank loans can provide developers with low-cost capital that we can lend to our projects at market rates, and earn interest income on the spread between our cost-of-capital and the market rate. With enough deal volume, the interest income earned could support ongoing resident services costs (delivered in-house or through outside providers).

**Real Estate Land Banking:** Think like a speculator. Land in revitalizing communities appreciates in value. That value is most commonly captured by existing property owners and real estate speculators. For housers, more aggressive efforts to capture the increase in property values that results from a comprehensive neighborhood revitalization, through land banking and speculative acquisitions, could generate additional resources for future redevelopment and service activity.
Proceedings of the Symposium

Chicago, Illinois, April 18, 2001

Welcome and Opening Remarks

Ken Wade, Neighborhood Reinvestment Corporation
Paul Mazzarella, Ithaca Neighborhood Housing Services and Chair of NeighborWorks® Multifamily Initiative Steering Committee
Conrad Egan, Millennial Housing Commission

KEN WADE: Good morning everyone.... I am the Director of National Initiatives for Neighborhood Reinvestment.... We want to welcome all of you today to.... talk about this very important subject of strengthening neighborhoods by creating long-term multi-family assets.

Today’s symposium is being sponsored by the Neighborhood Reinvestment Multifamily Initiative, as well as our national training institute.... The multi-family initiative at Neighborhood Reinvestment is one of many national programmatic initiatives we have going.... Over the years we have grown in our ability and interest and programmatic efforts to support groups that are involved in multi-family activity. And today we have groups in our network that own over 25,000 units of multi-family housing....

We wanted to acknowledge and thank Fannie Mae, our generous sponsor for this event, and then we also wanted to thank a distinguished group of folks who worked with us to do the planning for this forum: Michael Bodaken from the National Housing Trust; Conrad Egan, National Housing Conference; [Shekar Narasimhan] from Prudential; Nicholas Retsinas, Joint Center for Housing Studies and former board member of Neighborhood Reinvestment ...; David Smith, Recap Advisors; Leslie Steen, Community Preservation; Charlie Wilkins, Compass Group. We want to thank that group of folks for working with us over the past few months and putting this program together. So, if we can give them a round of applause....

We have a very power-packed agenda today. I have the distinct pleasure of introducing Paul Mazzarella, who is the Executive Director of the Ithaca NHS and the Chairperson of the Steering Committee for the Multifamily Initiative.

PAUL MAZZARELLA: Thank you, Ken....Our initiative is composed of 45 NeighborWorks® organizations that are spread all across the United States.... and we’ve created a shared vision about how affordable multi-family housing should be developed and operated. Briefly stated, our vision is to create the tools and knowledge that will lead directly to the development of sustained excellence in affordable housing.

Now, what do we mean by sustained excellence? First, it’s our goal to develop affordable housing that will serve as long-term assets for the community. Second,...it means that we’re seeking to develop housing that in addition to being affordable, is also financially viable to the owners of the properties. This means the creation of projects that are well capitalized, that have adequate operating and replacement reserves, and that are developed by stable, well-run organizations. It also means that once these projects are built, they must be well-managed....Our purpose is to practice sound asset management from the very beginning leading to projects that are built on solid planning....
One of our core values is that the residents of our housing are very important, and that our obligation to these residents extends beyond simply providing shelter. We’re seeking to create communities, not just housing. And the communities that we’re trying to create have to be places where the residents have a meaningful life. So, we’re looking to provide services to the residents and to provide the opportunity for residents to play leadership roles in the communities that we’re building.

We also value the creation of well-designed and well-constructed projects that will be assets to the communities rather than liabilities....

Next, it’s my pleasure to introduce Conrad Egan. Conrad has long been at the center of the Affordable Housing Discussions at a national level in our country. He currently serves as the Executive Director of the Millennial Housing Commission and prior that was the Director of Policy for the National Housing Conference. Conrad.

CONRAD EGAN: Thank you, Paul, for that very kind and blessedly brief introduction. ... I particularly would like to thank – in addition to the Neighborhood Reinvestment Corporation leadership – Francie Ferguson for putting this together....

I’d like to make three quick points and then turn the event over to the panel that follows. First of all, I look forward to taking lessons from today back to the commissioners of the Millennial Housing Commission. We, too, are committed at the staff and the commission level and the congressional level to the same kind of goals, Paul, that you outlined so well there. And we look forward to our small opportunity to advance those goals by putting recommendations forward to Congress which will strengthen and support the objectives that you stated. ...

The second thing I’d like to do is advance a theory....I’m supposed to project some framing remarks and I would suggest that we...have gone through three phases. We learned some things. We forgot a lot of things. And now we’re in the process of re-learning some of the things that we forgot.

I first got hooked to housing when I was doing some work in the neighborhoods of Detroit.... and I can remember being involved in the production of some
221 D-3 BMIR properties on the inner west side of Detroit. And actually had a chance to go back and look at them, which I do periodically. And, you know, they’re still doing pretty good.

And I think some of the reasons why they are is that they were first of all, market-oriented. They filled a niche. They were well-scaled to the neighborhood. They fitted into the neighborhood. They were conservatively underwritten, so in addition to providing funds for reserves [they] also provided cash flow for emergencies. There was limited dependence on deep subsidy. I don’t necessarily mean to suggest there’s limited use of deep subsidies like Section 8, but there is limited dependence on deep subsidies at the front end. Long-term ownership committed to making the properties successful, and availability of resources.

And then we proceeded to forget a lot of those lessons. Along came things like 100 percent Section 8, 221 D-4 insurance. You put those two together and you could take that to the bank and get your financing without any questions being asked – long term Section 8 contract, 100 percent FHA insurance – hey, the lenders ate that up. BSPRA, for those of you who go back to that era, Builders and Sponsors Project Risk Allowance, … which really made the deals from the developers standpoint. Properties that they could get into without putting any of their money into it. And also, of course, we had 50 to 70 percent tax rates back then which made the syndication a lot easier. And it also guaranteed that the investors really didn’t care about the properties. In fact, my friend David Smith wrote a book during that era called “Subsidized Housing as a Tax Shelter.” And that really says it, doesn’t it....

We also had easy site availability, you know, we could go almost anywhere and do most anything—whether it fit into the neighborhood or not. And also, of course, credit after the credit crunch passed was relatively easy. Unfortunately it came to be too easy.

And then the crash of the late 80s came for a variety of reasons. But coming out of that, I really think that we are now in the process of relearning many of the lessons that we forgot. And I won’t go back and repeat the litany that I did a few minutes ago about the earlier years of developing assisted housing. But I do want to encourage you strongly...to look at the papers that Charlie Wilkins and David Smith and Wendell Johns and Michael Bodaken and Pat Costigan have prepared, because they really are amazingly consistent. I shouldn’t say that I’m amazed that they’re consistent, but they all say pretty much the same thing – that what really matters are those hallmarks of success that I indicated earlier and that Paul laid out so well in his remarks.

The third thing I’d like to do … is to issue a challenge. … I would hope that coming out of this event – and it’s not going to be something that’s going to happen here today, but maybe we could commit ourselves to moving in this direction – the development of what I’ve characterized as a standard term sheet. Some of my colleagues agreed to my use of that term. But it seems to me that if we could get the allocators of the tax credits, if we could get the syndicators, the lenders, the equity investors, the debt investors, the secondary market purchasers, the HFA, FHA, all on the same page when it comes to the terms that need to be met when these deals are either initially underwritten or when they’re underwritten on a preservation basis where the properties are put back on, hopefully, a healthier track.

And it seems to me if everybody who’s in the business – on the debt side, the equity side, the subsidy side, the development side, the community side, the finance side – is more or less adhering to the same set of principles, then those of us who are in the business of putting together these deals can do so within the context of a set of rules that’s going to, hopefully, insure and guarantee better success.

Let me close by saying that I look forward – if you decide to move in that direction – eagerly to incorporating elements of those principles into the recommendations of the Millennial Housing Commission so that when we present them to Congress, Congress, hopefully, will also support them and help them to be implemented not only at the federal, but at the state and the local level. So, thank you for giving me the opportunity to frame the session. And I look forward to being with you the rest of the day and to the power-packed ... presentations that we’re going to have.
What can our Product be?

Characteristics of Excellence in Affordable Multifamily Housing

What makes a property desirable for the residents, the neighborhood and the owner over the long term, and why aren’t these properties the norm? Owners of outstanding affordable housing discuss what resources and practices are needed to make excellence the standard.

Lead Presenter: Charles Wilkins, Compass Group

Moderator: Georgia Murray

Panelists: Joy Aruguete, Bikerdike Redevelopment Corporation
Daniel Burke, Chicago Community Development Corporation
Leslie Steen, Community Preservation and Development Corp.

RACHAEL ISKOW: I’m Rachael Iskow, the Executive Director of Sacramento Mutual Housing Association, a member of the NeighborWorks network and the Multifamily Initiative. And I welcome you to our first panel about affordable housing excellence....

First I’ll introduce the panelists. Georgia Murray will serve as our moderator for this panel. Georgia is a trustee of the Urban Land Institute and serves on the boards of Capital Crossing, the Friends of Boston’s Homeless and the Women’s Education Industrial Union. She previously was the principal of Boston Financial from 1975 through 1999.

Charles Wilkins of the Compass Group is our lead presenter for this panel. Charlie is a consultant on affordable housing policy, finance and management as well as property management. He is a financial advisor to HUD’s Mark to Market Program and is a member of Public Housing’s Operating Cost Study Team. As senior executive with the National Housing Partnership, Charles was responsible for asset management of that organization’s 60,000 units of affordable housing as well as its relationship with Congress and HUD.

Leslie Steen is President and CEO of Community President—Preservation and Development Corporation, a non-profit that creates and preserves affordable housing. Formerly, Leslie serves as director of Portfolio Finance for the National Corporation for Housing Partnerships and was also the first executive director of Twin Cities Housing Development Corporation, a non-profit created by the cities of St. Paul and Minneapolis and the St. Paul/Minneapolis Family Housing Fund.

Daniel Burke, our second panelist, has served as Vice President of Development for the Chicago Community Development Corporation since 1988. In this capacity, he has been involved in the
acquisition and rehabilitation of over 1600 units of HUD assisted apartments. Daniel is an attorney and has served as the Development Consultant for groups purchasing Housing under HUD’s Preservation Program in Illinois and Wisconsin.

Joy Aruguete, our first panelist, has served as Executive Director of Bikerdike Redevelopment Corporation for the past six years. She also supervises the work of Humboldt Construction Company, a for-profit subsidiary of that organization. She is president of the Chicago Rehab Network and serves as one of the Mayor’s appointees to the City of Chicago’s Community Development Advisory Committee.

CHARLES WILKINS: …I have a career as an owner and a manager. However, at this point in my career, I don’t own any apartments, I don’t manage any apartments, I haven’t made any loans on any apartments and I don’t regulate any apartments. Which qualifies me to advise everybody who does. So, that’s what I do for a living now. I’m a consultant. And my value is that I have personally made almost every mistake it is possible to make in apartments. And that proves to be valuable to folks because I can help them not make the same ones.

Affordable housing is difficult. It’s really worth doing. When you do it well, it works much, much better than when you do it kind of so-so….I would emphasize the difficult part because we’ll be throwing a lot of rocks today at things that haven’t worked and things we’ve all done that aren’t so good. But a lot of this is the consequence of attempting things that are inherently difficult to accomplish....

I won’t be going through the paper point by point because I’ve heard that most of you have read it already. In the first couple of pages, I talk about some things that are dramatically better now than when I started my career in affordable housing about thirty years ago. And I think it’s really worthwhile to celebrate those things and I want to single out one point for celebration which is that we have a large number of funders and allocators now. It isn’t just HUD. We have state housing finance agencies, other allocators of the tax credit program, local governments through CDBG and Home which means there’s a tremendous amount of innovation going on. People are trying different things, stubbing their toes, learning from each other. And one of things that I would hope might come from today is some ideas about how we can speed up the innovation process. How can we broadcast the lessons learned, make sure that everybody who is doing the experimentation is figuring out very quickly what works, do more of it, what doesn’t work, stop doing that, and I would be real interested in ideas about how to facilitate that.

I want to talk a bit about two points in the paper that I think are worth a little additional discussion. One of them is underwriting, generally. A lot of the points I talk about have to do with getting too aggressive in the underwriting of affordable housing. And partially, it’s because we really want to get the deal done, partially, it’s because we may have a sense that it’s easier to get it done and fix it later than it is to get it done right the first time. And part of it is, we may be working from rules of thumb that were valid in the context in which they were created, but aren’t valid in affordable housing. And I wanted to drill down into those things a bit.

In my experience, underwriting is a lot like property management. Everybody brags on their property management. Everybody criticizes everybody else’s property management. I know this. I used to run to big property management companies. Same thing with underwriting. If you talk to lenders or tax credit allocating agencies, they talk about how great their underwriting is. They throw stones at everybody else’s underwriting.

Now, the real truth of the matter is that these things operate in a competitive environment. They’re inherently difficult. Everybody is under time and cost and quality pressures. And nobody does it really, really well all the time. So, when I throw rocks at underwriters, realize that I understand that this is tough and you have to make tough decisions. And things that look clear when you fly like the eagles at 35,000 feet become progressively less clear as you get closer to the ground.

So, some examples. I actually am coming to believe that while it’s possible to improve underwriting from the bottom up,...there’s a real need for top-down change in the way we underwrite affordable
housing. And I hope that this symposium is going to lead to what Conrad called a term sheet, which is more agreement on how affordable housing ought to be underwritten so that it will be viable, so that we don’t have lots of folks in the industry working from the wrong rules of thumb....

In my consulting business, I run into all kinds of war stories. For instance, one of my clients said to me: “You know, we compete for tax credits in this particular state and we have to lie in the proposals, because if we tell them what our operating costs really are, we won’t get funded.”

So, the state is working from a benchmark that...isn’t valid in affordable housing, and as a result we have something goofy going on in the tax credit allocation process. There ought to be a way of fixing that. I’m not sure I know exactly what it is, but the sort of term sheet approach Conrad was talking about might help.

I run into all kinds of war stories. For instance, one of my clients said to me: “You know, we compete for tax credits in this particular state and we have to lie in the proposals, because if we tell them what our operating costs really are, we won’t get funded.” –CHARLES WILKINS

My pet peeve on rules of thumb, is operating expenses as a percentage of income. That sort of makes sense out there in conventional apartment land, but it doesn’t make much sense in affordable housing where our rents are all over the map. So, you can have properties that are physically identical, but have dramatically different rents because of who they’re serving, what neighborhood they’re in. And, of course, the operating expense ratio will be really different in the property of the low rents as opposed to the property with the high rents. So, that’s an example of a rule of thumb that’s imported from another context that makes no sense in our context.

And my big pet peeve is the affordable housing deal that’s just wound too tight. It doesn’t have rents that are really achievable. We have the rents that look good on paper, but we all know we can’t get those rents in the real world. There’s a vacancy allowance, but it’s not really adequate. Maybe it’s based on the vacancy we’ve seen in the last year or so in our hot as a pistol market. But real estate markets change. Over about a six year cycle, we normally see up markets and down markets and the vacancy allowance should reflect that.

We’ve seen underwriting with unrealistic operating expenses. The operating expenses that might occur if you had the most wonderful site manager on the planet and if the most wonderful property manager in your portfolio was watching the property full time all the time. And if nothing went wrong. And if the utility rates didn’t change....And if nobody who lived there had any pets or kids or parties.

You want to get the deal over the goal line. You convince yourself you can actually make it work, and you really shouldn’t. And your lender shouldn’t and your tax credit allocator shouldn’t, but we all do it. And somehow or other we have to get past that.

I’m hoping that some of the work that Georgia and I and others are doing with the public housing operating cost study may help with that. We’re doing fairly advanced statistical analysis on huge data bases of apartment operating expenses and I’m hopeful we’ll come up with some useful rules of thumb and some more sophisticated ways of looking at operating expenses that’ll help us all to get that a little closer to the mark.

Reserve deposits. The FHA standard for reserve deposits will fund about half of the on-going capital needs of the property. This was a valid rule of thumb in the 1960s when it was developed because people...
could resyndicate properties every five or 10 years. You could raise cash. You could put half of it in the property and half of it to the seller or the buyer or whomever. And you could supplement the reserve. In the conventional apartment world, we use reserve deposits – 250, 300, 550 dollars a unit a year. It’ll fund about half the ongoing needs of the property. It works just fine because in the conventional world, we’re using low debt amounts and we’re typically using short loan terms. It may be a thirty-year amortization, but it’s due in ten, due in 12 due in seven.

So, it makes sense there. But, guess what, in affordable housing, we try to do long-term, fixed-rate, self-amortizing financing, we’re not planning on raising the rents dramatically fifteen years from now to pay for fix-up. We can’t resyndicate every five or ten years like we could thirty years ago. So, I have come to the view that we have to have a much bigger reserve deposit in our deals than other people have in their deals. And this is part of figuring out our rules of thumb that have to be different from other people’s rules of thumb.

I’m actually a big fan of capital needs assessments. These are these fancy, twenty-year engineering studies that tell you what the real number is. I’m a huge fan of those and I think that those have to be part of the way we do affordable housing going forward.

So, those are some ideas about underwriting, and I guess where I’m coming to is we need to develop our own rules of thumb, talk about them, adopt them....Our business is developing its own way of looking at things so that our properties don’t have to get reworked every ten years or fifteen years or twenty years. Because I get worried about this. We can’t do affordable housing unless [Congress] gives us lots of money every year. Because affordable housing is always worth less the day we open the door than it took to build it because we’re working with lower rents, because we want to serve people at rents they can afford. So, we always need half or two-thirds of the construction and development costs to be paid for with grants. And the grants come from government.

I worry that the government is going to be reluctant to keep giving us all this money if we have to keep bailing out the properties we’re doing. Because if [Congress] thinks the properties they’re funding today are going to need another bite of the apple ten or fifteen years from now, it’s going to make them much less enthusiastic about giving us the money to do our deals now. So, I think it’s incumbent on us to do deals that will work for the long term, say no if they won’t work, keep working on them until they do, so that we have better stories to tell to people who give us all this money.

Second thing I wanted to talk about was neighborhoods. It’s my theory that ten years from now when we talk about affordable housing underwriting and affordable housing development, people will start by looking at the neighborhood. You know, right now, people start by looking at the sponsor and the design and the pro-forma. I think we’re going to start looking at the neighborhood first. So, we ought to start looking at the neighborhood now.

And what kinds of neighborhoods make for really wonderful, affordable housing properties. I’m coming down on the side of viable neighborhoods as the site for affordable housing. There are some really powerful things that come from that. First, the market rents in the neighborhood are north of the rents [that] it takes to operate our properties. This gives us much more flexibility in operating the properties. It attracts a mixed income clientele naturally without having to jump through hoops and stand on our heads and spit jellybeans. We have a community, not just a collection of people who live next door to each. The real estate value is likely to increase over time which, again, gives us flexibility and improves the sustainability of the property over time.

So, the corollary question for me is, can we do wonderful, affordable housing in bad neighborhoods? And I think the answer is yes, but. And the first but is you really have to have 100 percent deep subsidy to do great affordable housing in a tough neighborhood. And that constrains a lot of things. It means you aren’t going to get a mixed income profile more likely than not. It means you probably are heavily dependent on the government’s good will for the next 20 or 50 years, which you wouldn’t be in the better neighborhood. I also believe history shows we need more operating
expenses in the tougher neighborhoods. So, our underwriting has to be a little more generous. There's more things that can go wrong. You're more likely to need non-housing services in the tougher neighborhoods. So, I guess we can do wonderful, affordable housing in difficult neighborhoods, but we have to be careful about it and realize it's going to cost a little more and we have to build a more robust property financially, physically, socially and in every other way.

Final thing I would say is before we go charging into this bad neighborhood to do affordable housing, I believe ten years from now, the community development folks will believe that the saving grace for a bad neighborhood is to let the real estate values drop to a point that private investment will come in, that new, private citizens without subsidies will willingly invest their dollars in the neighborhood for home ownership or rental or business or whatever. And that's the point where the neighborhood will come back. And a lot of what we do when we intervene in difficult neighborhoods is we are delaying the decline of value and we are getting in the way of the revival of that neighborhood. So, I think we have to be careful about how we move into difficult neighborhoods. Affordable housing can be part of it, but we need to take some care.

Final point on neighborhoods—I've done a lot of teaching at the University of Maryland lately in combination with a part of the solution, lady named Jacqueline Rogers who was Secretary of Housing for the State of Maryland. And we do a lot of case studies on affordable housing development in pretty good neighborhoods. The lesson that comes from that is you can get past neighborhood concerns in viable neighborhoods. There will be more concerns in the viable neighborhoods than in the difficult neighborhood. It takes longer. You need another year in your pre-development process to work with the neighborhood. But when you come out the other end, you have a much better property. And I think that's probably the future for affordable housing: To realize that to do it the right way it's going to take a little bit longer. We do need to consult the neighborhood up front and have a more inclusive process.

As Conrad [Egan] said, thirty-years ago, we could go anywhere, do anything. You pull the right political wires, you could get your site control and everything was fine. And it doesn’t work that way now. We need to work with the stakeholders and take a little more time. I'll close with that [thought] and Georgia, back over to you.

GEORGIA MURRAY: Thanks, Charlie. With Charlie’s great sort of setting the framework, we’re going to get the panel and give everybody about two to four minutes for their personal pet peeve in terms of what should change or their wonderful story about how they’ve done everything right...and then we’re going to open it up to some audience questions and some discussion. It's not like we have all the answers. But we do want to give everybody a chance. So, Leslie.

LESLIE STEEN: Okay, when I was asked to join this group, I explained it to other people that I was asked to be on a panel to tell people the things that I've done wrong as a developer that I [now] know better.

Anyway, Charlie has raised many, many good points. And I think that in the world we're living in, we are so constrained by our limited resources that there are lot of decisions that happen that aren't right. I know that all of us have difficulty with public agencies. One of my pet peeves is the public agencies that we all negotiate with when we're putting together whatever piece of the financial puzzle it is. You go in, you put together a pro-forma, you explain it to people and they say, “Oh, no, it can't cost that much.” And “Oh, no, you can't have operating expenses that high.” Or, one of the things that I did 10 years ago when I started working in the State of Maryland. I walked in the door with a replacement reserve of 250 per unit and they went, “Oh, no, we do it at...” – I don’t remember the number – but 125 or something like that. And I said, “Oh, no, that's not realistic.” Well, 250 isn’t realistic either. And Charlie knows that. And I think many other people know that as well.

We look for long-term, fixed financing – typically a 50-year loan. We go in and we do as substantial a rehab as we can afford to do. And I like to do a whole lot because I say there's one bite at the apple. Well, then somebody comes along and says, “Why don’t you do a forty-year mortgage? FHA will give you a
forty-year mortgage.” And I go, “Well, you know, thirty years…the mortgage is paid off, I can refinance. I can get some more money into this project when it needs it because the replacement reserve hasn’t been adequate.” You make decisions. We’ve learned mistakes but we’re still making mistakes today.

I wish we could recognize grants for what they really are because we often operate in an environment using tax benefits, we do contorted things that turn grants into loans….And that’s foolishness. Let’s recognize it….I think what’s probably deepest in my heart of lessons that I have learned over the years – and let me say I started out as a market-rate developer doing historic renovation in changing neighborhoods. I became a condo developer. I was on the for-profit market-rate side and it wasn’t until the early 1980s that I moved into affordable housing. A lot of similarities between working in older, deteriorating neighborhoods doing market rate things and doing affordable housing. If you look at revitalizing neighborhoods. I moved from doing market rate into doing 100 percent low-income. Today, if there is anything I can do, I will not do 100 percent low-income because I’ve spent ten years now going in and fixing broken projects. And one of the most important things is that we need a mix of incomes—not in every circumstance. Let me say that what I believe is not one-size-fits-all. And what Charlie [Wilkins] was saying … look at the neighborhood and look at what your goal is. … [Is] your primary purpose to create housing for low-income people? Are you trying to do some revitalization? Are you trying to attract people back into a neighborhood? Or are you trying—the project that’s near and dear to my heart is Edgewood Terrace in Northeast Washington. We were trying to serve a group of very, very low income tenants, and at their request, attract higher income people back into the community. The projects like that have to be hand crafted. And our lenders, our equity providers, our public agencies, have to recognize that and work with us on it.

Often, people blame property management when, in fact, the development was cut short the day that you closed on the development when you under-represented your operating costs because somebody told you that they were too high.

–JOY ARUGUETE

And luckily to date it has succeeded and it’s next to a large site that the city is [now] redevelop[ing], not solely because this project got done, but I think if this project had been demolished or continued to decay, the USX site would have some issues....

I think place-based service...is working. Neighborhood network centers work. I—frankly, there’s some people in the room that started that program. I thought it was a little bit of a photo op ribbon-cutting at the beginning as a developer. Great to have. Will it work? And they really do work. And we have about five of them and one guy who started the first one is now actually doing the development of the additional centers and has developed a
business in it. And so, I have found that the computer technology...helps strengthen the development, and strong multi-family strengthens neighborhoods. It's simple, but it's true.

I guess the other aspects of place-based assistance in a welfare-to-work environment...is having some success at doing job training. And I think we have to do more and more of that. We find people where they are housed. They're facing certain deadlines. They have to have the skills to be able to face that reality, and delivering those [skills] at the site is an efficient way to do it.…. 

I really think we have to…look at our projects when we're not deeply subsidized with Section 8. Are we hitting people at 40 percent of median? I think that's my benchmark. If I can get rent at 50 percent or 40 in the deal, then I think I'm doing affordable housing. If I'm at 55, I'm at $950 for a two-bedroom apartment in Chicago and I don't think I'm really adding too much to the system. So, I think that may cost more in soft money. It may mean fewer total units get done, but I think that's a price worth paying to get to a target where you're really serving people who need the federal assistance.

GEORGIA MURRAY: Thanks, Dan. Joy, do you want to wrap up the—this part of the panel for us? 

JOY ARUGUETE: Okay. Well, let me start off by saying I really want to emphasize and agree [that] people involved in affordable housing development, not look at ourselves as affordable housing developers, but to look at a broader perspective of developing communities and looking at the residents who live in those communities. And building the kind of housing that is suitable for those kinds of families. So, for instance, if we're in a community that has larger families, despite the fact that all of us know it's much more difficult to manage large units, it—it also is what's suitable to the families in those communities.…. 

I want to talk about this idea of capping total development costs. And while I think we need to be disciplined as community developers, developers of affordable housing, I think that we are often placed in a position of not making good development choices when we are forced to adhere to total development costs that we know don't bring sufficient revenue up front to do a good job in the development…. I agree with what Leslie said. We also try to do substantial rehab on all the properties we do unless, of course, it's new construction…. But if we don't put in enough money up front, then it does have an impact in the life of the property and, ultimately, drives our operating costs up.

So, I think that it's a worthwhile fight to have with our state and our city here in Chicago….[L]imiting total development costs...has put many properties in jeopardy.

...Often, the reason that government wants to limit total development costs is because they want to try to stretch their HOME dollars further and there's obviously a lot of competition for tax credits and HOME.... But it's important to try to bring enough money in up front... and I just want to acknowledge...that good property management is absolutely essential to any affordable housing development. But often, people blame property management when, in fact, the development was cut short the day that you closed on the development when you under-represented your operating costs because somebody told you that they were too high. And so, it's important not to under-represent...those operating costs because it really cost that much to operate the development and it's worth having that fight....

We've heard a lot about development in communities that are dilapidated....We work in gentrifying communities...preserving housing for people who are being forced out of the community....And there are a lot of speculators in this type of environment. This is a special condition that we've had to really talk through with everybody involved in putting money into the development. Yes, acquisition costs are going to be higher. It's going to drive total development costs up. 

And that's just the way that it is....the fact of the matter is that lower-income people have to live somewhere and there's no housing being built for them. And they're just getting pushed around. And we're not actually improving our economy for everyone. We're just improving the economy in certain neighborhoods. So, I'll stop there.
GEORGIA MURRAY: Okay….one of the things that you've all touched on is sort of the unreality of underwriting and what do we do about that…. [I]f excellence in affordable housing means really good underwriting and we're all kind of lying to each other in terms of what the costs are—in terms of running the property or the costs of replacement reserves—what are some of the strategies that we can use to have that change?

CHARLES WILKINS: Well, I think a lot of it has to do with transparency. We have to have more information out there that's readily accessible to everybody, so that funders and lenders and cities can look at actual data for development costs or operating costs and see that the costs that are being proposed are within the range of what's actually occurring in similar properties. So, I think some of the work that we're doing with the cost study may be helpful in that regard and some of the work that HUD has done in collecting information about tax credit properties may be able to be expanded on to make those data bases available so people can say, oh, yeah, well, if you do this kind of property in this kind of neighborhood with this sort of unit, it really is going to cost about this much. And it will be helpful for people not to have to rely on imperfect rules of thumb....

MOSSIK HACOBIAN: I just want to point out we're talking as if this is only about underwriting….first of all, I don't think there is a tough neighborhood or a bad neighborhood. I think it's really a consequence of a lot of decisions that sometimes are not made for the right reasons….there is this conventional wisdom that if you've got the house in a big lot and there's no sidewalks and you can't talk to your neighbors, that's somehow a good neighborhood. So, I think we need to change the frame of reference about how we're talking about these places.

In a neighborhood, you don't have the choice to walk away from a six-unit or a twenty-unit building that is bringing down the whole neighborhood. It might not be a good underwriting decision, but if as a neighborhood-based organization, you don't do that project, you're not serving the neighborhood. So, you have to look at the underwriting in a different way. And I would suggest that...you should really underwrite the organization that is doing the work. In practice, that's what we do. We are able to secure financing to buy projects before we have a take-out strategy because the lender or the investor trusts our track record and our commitment to that neighborhood….what we'd like to see as NeighborWorks organizations is the system's willingness to continue to increase their investment in us and let us underwrite the neighborhood and let us underwrite the project.

...Finally, on the underwriting, I don't think we're lying to each other. I don't think we can know what the real number is. The fact is there is a threshold. We just don't agree with it. It's not as if we're not being told what it should be. It's not as if people don't tell us what the ratios are. When there isn't enough money to do everything you need to do, you make certain best guesses now and then you build on that over time....

GEORGIA MURRAY: Well, a couple of issues you've raised. One is: It may not be one-size-fits-all on the underwriting, but is there more that can be gotten from knowledge of what's happening, both in local markets and national understanding of what it really takes?...as Charlie pointed out,...if you make the best estimate on rents, the lease vacancy,....everything is going to run smoothly. My favorite thing used to be that somebody would say, well, the pipe broke that year...so don't underwrite that. Tell me a property that a pipe doesn't break one year? You know, you can't do that....under-capitalized properties can almost be as bad for a neighborhood...because it brings the whole thing down.

MOSSIK HACOBIAN: ....real life example, twenty years ago, we took on a scatter site, twenty-seven unit development where we would basically make the operating costs whatever they had to be to support the debt....That was one of our first projects [and] it was the wrong way to do things. Had we not done that, one of the projects would have been torn down because HUD had condemned it....the tenants came to us and said, “Save our building.”

...We did it wrong in the first place. We fixed it ten years later and we continued to fix it until now, it
needs one more round of fixing, but we’re negotiating that with the state....

GEORGIA MURRAY: But that brings up the whole thing of resources. How do we look to Congress if we keep going back and saying we have to fix what we just fixed.

UNIDENTIFIED PARTICIPANT: I’d like to point out another problem as far as underwriting. We’ve been developing, for about ten years, apartments in the tax credit area. It used to be...that you built a five million dollar project [and] you had a three [or] three and a half million dollar mortgage on it. And you underwrote it so you had sixty or seventy thousand dollars cash flow. Now you raise more equity, you put rents on, you put soft money on it, and the same five million dollar project now only has a million dollar mortgage and it's got twenty thousand dollars cash flow. There’s no cushion for error....the chance of failure of projects are going to be so much more today than deals that we did five, six, seven years ago....

My other pet peeve...is...should we be spending $120,000 to rehab an old building versus building a new unit the same size with modern conditions for $60,000?...can we produce more homes and serve more families?

And then [my] third peeve is...dispersal of poverty....When you go back into the inner city...and recycle, recycle, recycle,...but if you’ve got greenfields out there with good school districts we [could] disperse poverty [by] building new construction, putting them in good schools in a mixed income environment, smaller projects, recreation centers, youth programs, support systems, school bands and soccer programs, baseball...and all these things that they get that elevate that kid....you just can’t...rehab that old shelter and expect everything’s going to change. You’ve got to change the environment.

GEORGIA MURRAY: Thank you....Do you take all that and put it into very low income, because that’s where the real need is, or do you mix it to have a sort of variance. Dan, do you want to talk about that?
DANIEL BURKE: Well, I think you’ve just framed the issue. I’d welcome hearing what people think about it in the field, because I think “mixed income” is a mantra that... makes some sense.... Conrad [Egan] has advanced some ideas relating to tilting [tax] credits—more credits for more lower-[income] units.... Is it a resource eater... or is it really building strong communities?

GEORGIA MURRAY: Comments from anybody. All you practitioners out there?

UNIDENTIFIED: I would like to pick up on something that Charlie [Wilkins] said earlier and... frame it slightly differently.... Underwriters simply respond to a set of givens, and we then provide them with information based on those givens. So, two points, and I’d like to hear the panel respond to both of them. One is... much of what we’ve been doing in the past [is] the production of a unit that represented a price range that we defined as affordable. And yet as we move forward and deal with community and neighborhood issues and resident issues, we’re finding that we’re trying to accomplish a lot of other things that have cost consequences... but weren’t necessarily built into the...underwriting and therefore are not reflected in any of the numbers.

The second is... we had to develop designs that enabled us to only ask [for funding] once. And I just have to say that is naïve, and not the way that markets have worked for centuries.... In a regular market process, developments and communities get continually reinvested in. The capital comes from a variety of sources and nobody... presume[s] that they can identify all of the needs for a future at one time.

So, what we have here is an incredible challenge... to educate funders... so that they have a clear understanding that this is an on-going process if they want healthy neighborhoods and healthy communities.

CHARLES WILKINS: I think... defining a different outcome is a very productive way of looking at this because maybe what’s been happening in the past is the outcome that’s been desired is a property that achieves a rent that we’re interested in at day one—without much attention paid to whether it’s viable ongoing. And that’s the outcome we have achieved. And if we defined a different outcome, we could achieve a different outcome. So, I think that’s very perceptive....

As to whether it’s realistic, I ran a big portfolio of properties that were aging and the thing that I noticed is that when they needed to be re-invested in, more often than not the resources weren’t there because the resource cycles didn’t have anything to do with the property[s]’s needs. And this has lead me to look for properties that are internally self-financing. So,... not a forty year loan which pays down nothing in twenty years, but a thirty or twenty-five year loan that pays down a lot so that at year fifteen or twenty, the property can refinance itself, raise some capital and sustain itself... because... [with] forty year financing and inadequate reserves, only the government can provide the funding it takes to redo the property at ten or fifteen or twenty years, and my experience suggests that we’ll have trouble with the properties if we do it that way....

GEORGIA MURRAY: Great. Well done. Thank you very much for your attention.
Who are our Producers?

Characteristics of Excellence in Ownership Entities

Long-term housing requires highly qualified long-term ownership structures, which prove capable at diversifying their portfolio, handling problems, controlling their profitability and organizational viability, and accessing risk capital. What characteristics define good, better and best owners? How can we encourage improvement in ownership entities? Investors and preservation-owners will discuss how they address these characteristics, and how the financing sources’ underwriting and terms affect their ability to grow these capacities.

Lead Presenter: David Smith, Recapitalization Advisors
Moderator: Helen Dunlap, Shorebank Advisory Services
Panelists: Wendy Dolber, Standard & Poors
Sr. Lillian Murphy, Mercy Housing

JERRY SCHECTER: My name is Jerry Schecter. I’m Executive Director of West Side Housing in Kansas City, Missouri. The second panel will engage us this morning with a different kind of a question. What are the characteristics of excellence in ownership entities? Who are our producers? What defines good, better and best and what are the barriers to becoming best. We’ll have a look at cross-currents among for-profits, not-for-profits and investment banking. But first let me introduce the people who will be leading us in this discussion.

On my left is Helen Dunlap who’s the President of Shorebank Corporation and CEO of Shorebank Development Corporation, the real estate development arm of Shorebank. Ms. Dunlap is our panel moderator and I’m told, provocateur.

To her left is David Smith, who’s a founder and President of Recapitalization Advisors, which is a Boston-based firm which specializes in finance of existing, affordable housing. Mr. Smith has a track record of designing and implementing innovative and rigorously sound financial transactions. Mr. Smith is our lead presenter this morning.

To his left is Wendy Dolber who’s the Managing Director for Standard & Poors in Public Finance Ratings. And she’s the manager of the Public Finance Tax Exempt Housing and Structured Finance Group.

To her left, last but not least, Sister Lillian Murphy who is President of Mercy Housing since 1987 which is engaged in community development activities across the country.

HELEN DUNLAP: I’m going to turn it over to David in one moment. I just want to reiterate that the focus of this panel is excellence in ownership and we assume that for this discussion we’ve inherited all those interesting dilemmas that we discussed relating to the last panel.
DAVID SMITH: We're in tab three of your hymnal, and I'd like you to turn – well, I've got Sister Lillian on the panel, so I can certainly make all of those jokes….

Most of the affordable housing finance and development and resource allocation systems that we have in this country, and have had for approximately 32 years, are built on the false premise that to develop this stuff is hard and to manage it is easy. Now, that was true in 1969. In 1969, FHA multifamily insurance was this “way-cool,” hot new high-tech product. And it was the only product that we had. And it delivered this way-cool, hot new high tech-idea – cheap rents. And everything was going to be great because we had cheap rents. And budget-based rents so that the rents would only advance in the little increments that we needed to keep the developments healthy.

And that worked just wicked, awesome, fantastic until the Arab oil embargo. And all of a sudden this great program crashed and cratered and burned and we had 95 percent default rates in Ohio and things like that.

And then we did something else, which was a way-cool, new, high-tech, hot solution. And it was called Project-Based Section 8. Now Project-Based Section 8 was a warm toasty blanket. We wrapped ourselves in Project-Based Section 8….We didn’t have to worry about any outside environments. We had our Project-Based Section 8 and we had… rents that were way up there. And if you came into our developments…you paid 50 percent of your income for rent and if you quit your job the day after, you got a 50 percent rent decrease. And I was getting $800 or $900 a month in rent in a $400 neighborhood and it was way-cool.

Well, as I discovered this morning at 6:15 when my alarm clock went off, at some point, you have to get out from the fuzzy blanket. And that happened in 1995 when our friends in Congress said, you know, $900 rents in $400 markets is not way-cool anymore….And since then, we’ve been living with the consequences of this exciting discovery that the Congress has provided us. And in effect, we are being…evicted from the warm, fuzzy cocoon in which we lived from about 1978 through about 1995. We are being driven out into market land. And it’s cold out there in market land. We empower tenants and you know what they do? The first thing they do, they get up and they leave….

But at the same time, we discovered that the warm fuzzy cocoon was also a trap. We forgot that the tenant was the customer. We forgot that charging rent above market is not something to be proud of. It’s possibly an indication of at least waste and inefficiency if not anything else. We also forgot that if you live in that warm fuzzy cocoon for a while, all sorts of useful skills atrophy and wither away and you forget about them. And you become convinced that simply because you care about the stuff, you must be a good owner.

And then along comes the bracing tonic of market impact. And the loss of Property-Based Section 8 and the federal government’s withdrawal from its previous paternalistic approach. And even possibly that …[a] recession might come up. And all those 85 percent debt-service coverage tax credit deals that we’ve all been doing…might suddenly come crashing down into default….

The paper I wrote…talks about the elements that define a good owner…To some degree, a good owner is somebody who isn’t one of the four things...
that [defines] a bad owner.

A good owner is someone who runs good projects for a long time. Not the day we pro-forma it. Not the day we finance it. Not the day it even reaches final endorsement or construction completion or initial occupancy, but for a long time….

… one attribute of a good owner…is that you actually care about the housing….One of the tests I have of a good property manager [or] good resident manager [is when] you walk into the property, she talks about “my property.” What “my property’s” doing compared to the other property and how I’m competing….

But a good owner in conventional is not the same as a good owner in affordable. A good owner in affordable has to do two things….The first thing is you have to…care about the housing. You have to have a mission heart. You have to believe that affordable housing is a good goal.

But the second thing—the thing that is in my way of thinking non-tradable, is you have to have a business head….You have to advocate for the property. And some of the people you have to advocate…against are its residents, because they don’t understand that it’s an organism and will die. They do what’s known in business terms as the free rider problem. They figure if I just do this, it doesn’t make any difference. And…from their point of view, it doesn’t. So, that business head means that you advocate for the property…against virtually everyone else who might be your funder, might be your constituent, might be your elected official. You advocate for the property….

I will close by telling you the four mentalities that I think define the “bad owner.” …The first bad mentality is brass ring mentality that says, I only have a one in “n” chance of getting something, so I’m going to do everything I can to lurch for the brass ring. Brass ring mentality leads to deals that are wound too tight. And secondary missions that become more important than primary missions and housing that gets messed up.

The second mentality that is understandable but is a bad mentality is the “one bite” mentality. We get one bite at the apple, so we’re going to take a big bite. Well, the problem with taking a big bite is that not many people can take a big bite and the unit costs gets very large. And when the unit costs get very large, the deal gets wound tight and we’re stitching all the sources together and the big bite supports a further big bite.

The third mentality that I’m not so fond of is the “cash-out” mentality. Now, there are two times in an affordable housing transaction when you can cash out—at the beginning and at the end. I must say having worked these things out, invested in them, syndicated them, you know, done just about all the things that Charlie’s done except rented apartments, I have a problem with big cash development fees. I don’t have a problem with some cash development fees, but I have a problem with big cash development fees because the day after a big cash development fee has been paid, I’m now in a negative position when it comes to motivating my sponsor. And somebody who’s in for that cash-out mentality at final endorsement or last tax credit equity payment, I get worried about—particularly because they normally have pledged that cash to finance the next transaction. And if I don’t give it to them, their whole development organization comes down and the deals come down.

The other cash out is of course at the end. I don’t want converters. I don’t want people who think residual value and want to kick all the poor people out is the way I’m going to get my value. Now, that in turn imposes some disciplines on me. I have to make it economic to develop a transaction without a cash-out up front mentality and I have to make it economic to manage a property downstream without a cash-out exit mentality.

And the fourth mentality that defines a bad owner is what I call the “unknown fib.” When is a lie not a lie? When I put it in an underwriting application to get myself an allocation. [laughter] But if I fall into the trap of believing it, then I get into trouble. I’ve been in this business for 26 years, and every transaction that I have ever seen has had inadequate operating expenses….But something I learned in the second of the three recessions I’ve been through in this career was that the smart developers knew they
were fibbing, and set aside money for when the inevitable...shortfall came....The dumb developers believed that because the allocator approved it and they sneaked it past the underwriters and...the bureaucrat who wasn’t paying as much attention...and gave me the FHA insurance, it must therefore be true. And then they went to try to accomplish the mission.

So those are the four mentalities....I feel confident the rest of the panel will...tell me where I’m wrong.

HELEN DUNLAP: Thank you, David....At this point...I’m going to ask the other panelists to respond to a question which we hope will begin a series of questions and answers...so that we can make this as interactive as possible....

Let me begin by asking Wendy–and I’m going to do a bit of an introduction, again, for Wendy and Lillian to share from their perspective...the characteristics that they look for...as a manager and operator and excellent affordable housing owner....

WENDY DOLBER: First of all I want to say I love what I’m hearing here....It’s music to a rating agency’s ears to hear about increased reserves and the exposure of the unknown fib and taking the long view....

...We do take the long view,...which brings up some issues about...properties that are underwritten..... When we look at a bond issue, we have to feel that everything is in place and is going to serve the property well for the next thirty years if it’s a thirty year bond transaction. That’s one of the reasons why ownership is so critically important to us...and in the last few years we’ve been rating a lot of unenhanced, unsubsidized or partially subsidized affordable housing properties. And I’ve come to learn that no debt service coverage is high enough when you have a weak owner....

And I just love what [David Smith] said about the mission heart and the business head. And how they really have to go together. And no amateurs; that is so important. It’s sad to see a really good-hearted, not-for-profit come in after the fact, after the deal has been done, and have to admit that they bit off more than they could chew, that they weren’t involved in the underwriting, they were working with a team that they had hired who basically brought a property to them. They didn’t scrub the numbers. They didn’t understand the numbers. And now they’re left holding the bag after the fact. And they have to fix it. And they want to stick with it, but they really don’t have the resources. That’s a sad thing to see. And it’s a sad thing for the investors, too....

HELEN DUNLAP: Lillian.

SISTER LILLIAN MURPHY: Thanks, Helen. First of all, I want to say thank you to David for his very insightful paper. I agreed with a lot of it and I disagreed with some of it, too. But I think it’s really helpful to put out different ideas at these kinds of meetings so that we learn from each other. In response to Helen’s question of what makes a good owner – or the single most important factor,...And I think the most important characteristic of a good owner is organizational capacity. And that has five or six pieces to it that I think are important to mention. One is having a very clear and focused mission, knowing what you are about. And in my mind, I don’t think mission and business are different. They’re the same.

So, I would like us to continually say that, because I think part of the difficulty we get into with the for-profit, nonprofit conversation is that there’s a misunderstanding because of the terms that we use, of what we do. And when David just said that he thinks one of the most important things is to care about the housing, I would say I think one of the most important things is to care about the people, because that really determines what you do with any of the resources in housing.

I think the other element is you need to have incredibly competent, committed talented staff. The work that we’re doing, while years ago it may have been hard to develop and easy to manage, is now hard to develop and hard to manage. So, we need people who are even more skilled than they have been in the past.

Another huge element is access to capital. As we look at what’s coming up in the future in terms of preserving the existing affordable housing, capital is
HELEN DUNLAP: Thank you, Lillian. David, do you want to add, respond to these comments before I open it up?

DAVID SMITH: Only a little bit. There’s only two thoughts that sort of connect together. My view is that profit is the price that you pay for competence. Now, profit doesn’t mean that it has to be a for-profit developer who makes said profit. I mean, the developments should cash flow. And that cash flow should go back to the sponsor and the sponsor should be able to use that cash flow for whatever the sponsor thinks is a good thing to do. Plow it back into the project, develop the next project, bet it on something else [or] pay the talented staff. One of the problems that nonprofits have is they have a tough time retaining talented staff. Maybe if we paid them better they would stay longer after they got married, got a house, got kids, you know, suddenly acquired liabilities, you know, as we say in financial terms. [laughter]

The related thing...is that one of my tests of a good sponsor is can you come up with fifty grand to chase...
a deal that’s a good deal that you don’t have any sources of capital for. And can you do that fast enough to catch up to the deal? And if you can’t, how are you going to deal with the problem that comes up after you’ve bought the deal. So, one of my solutions...would be to create programs that seed nonprofits with their own working capital once. Give them a hundred grand a throw. Make them bet it. Some of them would lose it. Some of them would get it back. And you’d start distinguishing among different capacities of nonprofits.

HELEN DUNLAP: Lillian, let me begin this conversation by asking you to respond to David’s last point....The whole issue of sustaining the organization as well as the development....Then I want to spend a few minutes on this whole dichotomy between nonprofit and for-profit.

LILLIAN MURPHY: I agree with David’s characterization of the fact that we need to make a profit and these things need to be strong. But my reaction to the hundred thousand was, yes, I think we need to be underwriting the organization and funding it to become good partners in this arena. A hundred thousand isn’t going to do it. A few million maybe, but not a hundred thousand.

HELEN DUNLAP: In the last panel they ended with a conversation or at least the beginning of a conversation about who makes the best owner...a nonprofit [or a] for-profit....I would be interested in each of you commenting on the underlying issues of character and quality....Wendy, do you want to start?

WENDY DOLBER: ...We don’t distinguish between for-profit and not-for-profit generally. However, we give credit to a committed owner who is committed to maintaining the housing as affordable and we would like it to be in the legal documents. We give credit to an owner who can bring all the resources available in the affordable housing community to the property. We give credit to below market rents. In that sense, you can have a for-profit owner that could do all those things. That’s why we don’t distinguish. And we do tend to have long conversations with the owner to ask all these questions and find out really what kind of development is it going to be.

DAVID SMITH: To my way of thinking, for-profits and nonprofits hedge against different risks. For-profits hedge against what we’ll call market conversion risk. In the gentrifying neighborhood, it’s tough to have a for-profit as your owner because the for-profit is seeking to do the very thing that the community would like not to have happen. At the same time, in recognizing that when you do do business with a for-profit, do not denigrate the profit motive and the desire for the fulfillment of the bargain after twenty or twenty-five years. It is an intrinsic part of the bargain that Congress cut. That’s the price you get when you bring a for-profit owner in there.

Now, having said that, why does anybody do business with for-profits when there are nonprofits around? Because for-profits hedge much better than nonprofits do against the other side, the forgotten side of the at-risk, which is the default side. Nonprofits are not very good at coping in general, with default-type situations. They don’t have as much experience with it, they don’t have the capital to bring to it. It strains the organization in ways that the organization’s typically not so used to straining. They tend to have smaller portfolios that they own. In general, I would rather have a for-profit with a lot of money in a troubled deal, than a nonprofit. Whereas I would rather have a nonprofit in a conversion-eligible project than a for-profit.

HELEN DUNLAP: Before we transition, I’m hearing scale as a criteria in what you’re saying as much as the motivation relating to profit.

DAVID SMITH: And I would accept that. If you look at the trend in affordable housing—if you went back to 1975, the biggest affordable housing manager managed about 6,000 units. If you went to 1985, the biggest affordable housing manager...managed 25 or 50,000 units. If you look at 1995 or 2000 the biggest affordable housing manager...manages 500,000 units.

Today, the biggest nonprofit manager...maybe,
10,000 units….Scale produces efficiency when it comes to financial control and operating compliance. Scale does not work well in development, but it works real well in operations and financial control.

Nonprofits and the allocation systems that we have are very much anti-scale. And in that anti-scale is a lot of inefficiency, and a lot of inability to deal with trouble.

HELEN DUNLAP: So, Lillian, how do you as one of those owners that owns 10,000 units – slightly more, I believe, today – balance the community benefits that I think many of us perceive in the nonprofit and the scale efficiencies that David is describing. And then, why weren't you partnering more with for-profits.

LILLIAN MURPHY: ...We have a mantra that says need is not enough. The need is everywhere for affordable housing in every community practically across this country. And what we have to do is be very astute about the markets that we are moving into and make good business choices. So you can’t say yes to every deal….And you have to underwrite both the organization and the property, in my mind, or it’s not going to be successful. We know that we have entered some organizations and they have not had successful properties, and we’ve underwritten some really good properties and the owners haven’t been that great. So, I think we need to do both of those things.

I think the scale is absolutely right….[I]f we were to somehow build capacity in these reputable, experienced nonprofit groups, we could make a bigger impact….

...[T]o go to the for-profit, nonprofit piece,…when we talk about nonprofits, I’ve heard a lot of people say, “Well, they’re well-intentioned people, but they’re really [not] good business people. It goes back to the mission heart and the business head. When you talk about for-profits, people think, well, their only motive is profit. Well, that’s not true, either. We all operate out of multiple motives, only one of which is profit. We both need to make a profit to continue in business. We both invest in the community. We may do it for different reasons and we may use the profit from that investment in different ways, but we clearly share some of the same things, so, I think our language continues to hinder understanding....

In the last few years we’ve been rating a lot of unenhanced, unsubsidized or partially subsidized affordable housing properties. And I’ve come to learn that no debt service coverage is high enough when you have a weak owner....

—WENDY DOLBER

...[I]n choosing a partner, in my mind, the major consideration is not whether they’re for-profit or nonprofit, but whether they’re a good solid business partner. That ought to be what determines partnerships. And that it makes sense for the community and that it makes sense for the particular deal that you’re doing.

DAVID SMITH: Just briefly. I would say that one of the indicators of...the maturation of an industry is the extent to which different kinds of mission-focused specialist organizations get really good at something and then learn...to partner with other complementary mission-focused specialized organizations on targets of particular need. In other words, the idea of the conglomerate, I think, is an indication of an immature industry....For example...finance is something you do once every 10 years or seven years....You don’t do it every year. Whereas operations, you do day in and day out. And development, you do one deal at a time or two deals at a time. They’re different commodities. They lend them-
HELEN DUNLAP: I think that’s a really important observation, and it triggered in my mind another example...and that is the increasing number of organizational mergers that Mercy [Housing Corporation] has been engaged in....For those of you that are not aware, over the history of the organization, it’s actually merged three times with three different nonprofits, most recently with RCAC [Rural Community Assistance Corporation], which is one of the largest home builders and multifamily developers in California. What’s particularly significant about that merger is that it was very desired by both parties and is perceived as an organizational leverage and growth activity to build some of those kinds of resources that support the organizations.

Many of us think of mergers as something we have to do because we’re in trouble, as opposed to a strategy, frankly, for becoming a better owner in this case.

Let me see if there are comments on this whole conversation about organizational structure before we go on to something else. George.

GEORGE KNIGHT: David, accepting your distinction between a good owner and a bad owner, how would I tell if I’m a [tax credit] allocator, looking at a stack of applications....

DAVID SMITH: First and foremost I look at track record. And I measure track record not in numbers of properties, but in number of recessions and problems survived....You only find out who’s good...through a recession or through a troubled project. It’s how they behave in response to trouble....

Interesting problem number two. Did they ever fix their own screw up and did they ever take on somebody else’s screw up and, if so, make it, if not perfect, at least better?

...One of the hardest things...when you have a troubled property and a laboring owner [is] which came first? Did the laboring owner put the property in trouble or did the troubled property sink the laboring owner. That is the hardest question...in...underwriting...[and] it deserves the most focus....

HELEN DUNLAP: Wendy, anything you want to add to George’s question?

WENDY DOLBER: ...We need to see for ourselves....[F]rom our position, we get a lot of presentations from investment bankers and what-not, [but] we go and kick the tires ourselves every single time on affordable housing property. And we continue to do that over the life of the transaction, because you only know from talking to the owners and the property managers what their track record is and what they are willing to do and, really, how competent they are.

But another key thing is it’s got to be a broad-based operation with highly qualified people, and not a single-operator type of situation...where there’s one key person that does all the talking and has been there for a really long time. That’s...just not...something that we’re going to be really comfortable with and investors are going to be comfortable with over the long term....

MICHAEL BODAKEN: ...[I]t seems to me some critical mass thinking is going on relating to how important ownership is and what kind of owners we need to make sure that we have excellent affordable housing....I don’t think anyone’s really responded about the development-fee, cash-flow dilemma. And I would like to hear some people--panelists or others--talk about whether or not...developers are willing to live with lower development fees and increased cash flow. Because I think, personally, that that’s something that would make sense in this environment, that would sustain people through a recession, David, [and] that would make sure that we would have excellent, affordable housing going forward. I know it’s somewhat controversial, but I think it’s important that we bring that up.

And second,....it’s not necessarily just a for-profit, nonprofit teaming partnership that can create a stronger team. We’re involved in a number of...
efforts where there’s a stronger nonprofit and a weaker nonprofit, both of which bring significant experience to the transaction for different reasons, and I think both of which can actually result in sustained excellence. I’d just like you to respond to those two points.

HELEN DUNLAP: Let’s take the second one first and then I want to broaden the topic of development fees and open it up because I can’t believe that there aren’t many opinions in this room. Wendy….

WENDY DOLBER: …We actually turn away a lot more deals than we accept because of weak [organizations]. But it absolutely can work that you can have a stronger not-for-profit supporting a weaker one. And it’s great because then the weaker one gets to learn as they go along and they become a stronger one some day….We love to see…a deal that comes in where this arrangement is already in place because the developers see that that’s the way that it should go, as opposed to us being the ones to say, “Look, you really need to partner with somebody.”

What we have found is when we’re the ones to say that, they’ll come back with their partner, you know, but it won’t really be a partnership….We want to know, “Is it really a partnership?” And we do everything we can to try to figure that out….

HELEN DUNLAP: Identify something you do to identify that there really is a partnership there. What makes you feel comfortable that there is a partnership as opposed to they’re just talking about it?

WENDY DOLBER: Well,…it’s a hard thing to pinpoint and we do the best that we can – we really need to hear it from them….I can’t tell you how many situations where people have said to us, “How should this work?” Down to the nitty-gritty of who should do what. Come in and tell us. Don’t wait for us to tell you. We want to hear from the people involved exactly how it’s going to work, and we want to see a lot of it down in black and white, too, with agreements between them in writing.

DAVID SMITH: Once upon a time, perhaps in a country not unlike this one, for-profit developers figured out that they could get extra points for having nonprofit partners. And they would recruit nonprofit partners to be their partner according to some governance document….And they don’t do that anymore, which is why I can raise this question because we can learn from this historical experience. And the thing about the nonprofits that came in under these arrangements was the for-profit would say [to them], “Say you’re independent.”…”Say you think for yourself.”…”Say you have organizational capacity.”….I’m glad we don’t do that anymore.

HELEN DUNLAP: So am I….

We haven’t dealt with Michael’s developer fee question….

FRANCIE FERGUSON: …Many of our funders don’t allow asset management fees above the line. So we do not acknowledge that ownership is a function. We allow property management fees above the line, but not asset management fees above the line. And I think that the tax credit industry has actually

...[I]n choosing a partner, in my mind, the major consideration is not whether they’re for-profit or nonprofit, but whether they’re a good solid business partner. That ought to be what determines partnerships. —LILLIAN MURPHY
contributed to that because of its perversity of trying to create losses. We actually are supporting owners through the tax credit structure, but it would be great if through the HUD structures and the rural development structures, we could do that as well.

Another thing...we might want to look at a model...linking two entities together in these partnerships, so that you end up having...local, hopefully nimble capacity....When we saw the large owner that owned everything but then had no local context, you didn't see great stuff happening, but then you see small local owners and they don't have that depth to live through. And so I'm curious if...the partnership structure actually offers a more flexible ownership model for going forward....

DAVID SMITH: And if I can extend that, part of the reason that asset management fees are such a problem is first of all, nobody knows what asset management is. You can't really get two consistent definitions of it. I mean, I have one which is the objectively right one. But nobody agrees with mine.

The second issue with respect to asset management is that because nobody knows exactly what it is, a lot of people claim to do it. Syndicators claim to do asset management. They don't. They do some kind of mixture of compliance monitoring and crisis bell-ringing and stuff like that. Regulators claim to do asset management. They don't. They do compliance.

The third problem with asset management is traditionally asset management is essentially what the owner does...The owner engages in asset management because the owner sees a profit either in cash flow or residual value. Well, to the extent that we have financing gaps — and here I am blatantly teeing up the question of financing for the next panel — we tend to close those financing gaps with soft debt or worse, grants that turn into soft debt, as Leslie Steen was talking about. And then over time, an unknown fib, somebody becomes convinced that it's real debt and should be repaid. And in effect, we get deals that are operationally sound and have negative residual value....If they've got negative residual value, why do you asset manage?...

HELEN DUNLAP: The reason...is it can get worse.

DAVID SMITH: And if I have no residual value, not wishing to disagree, but rather to extend the discussion...why is that my problem?

HELEN DUNLAP: Some owners...have multiple motivations—both for-profit and nonprofit.

DAVID SMITH: ...I'd like to know that there's a reason my sponsor will save this deal even when it is uneconomic....And that could be a mission reason or a track record reason, or a lender collateralization reason, or an S&P rating reason, but I want a reason he will do a non-economic salvage job on an individual project rather than simply saying, you financed it, it's your problem....

KRISTEN FAUST: Hi, I'm Kristen Faust. And I was a first mortgage lender—community development lender — for many, many years, and it's just fascinating...that nobody has talked about the role of the first mortgage lender and the fact that they can be your eyes — the S&P's eyes and ears closer to the ground about who's real and who isn't. I strongly believe that lenders and syndicators are the

Many of us think of mergers as something we have to do because we're in trouble, as opposed to a strategy, frankly, for becoming a better owner in this case. —HELEN DUNLAP
gatekeepers of these deals and really do need to act more in that role.

...David just said you’ve got to find out who your borrower is that will do the uneconomic thing...which I happen to agree with...When I was underwriting [tax credit deals], I would choose a nonprofit over a for-profit developer if forced to...I'm a big believer that we need for-profit housing developers to solve affordable housing in this county. But why would a for-profit developer put money back in the deal in year nine and ten?

DAVID SMITH: Track record.

KRISTEN FAUST: Right. Track record, which gets back to a kind of a classic underwriting characteristic that first mortgage commercial lenders are taught, which is something called character. And it's interesting. I would selectively underwrite for-profit tax credit developers, but it was the ones who you decided had character....

HELEN DUNLAP: You just turned on the audience. So can we go there....

UNIDENTIFIED PARTICIPANT: I'm just surprised that over three hours, no one has said the magic word “revitalization.” And no one has mentioned the culture of opportunity, resident services. We're talking a lot about asset management and needing to have a good business head, but I'm hearing that the only differentiation between a good nonprofit owner and a for-profit owner would be that somehow that the for-profit owner would be a better business person. It's not just one problem we're trying to solve - affordable housing - we're also trying to solve troubled neighborhoods and troubled families and trying to raise the incomes of the people who are working, who are living in our units.

I'm curious as to how the panel would react to the statement that nonprofits and for-profits are somehow only different by their tax status?

HELEN DUNLAP: Lillian,...I think that the gentleman’s question points out how quickly we fall into the language and not what's behind it for some of us.

LILLIAN MURPHY: Yes,...if my comments gave the impression that I thought the only difference was the tax status, I don’t think that. I think there are some fundamental differences. What I think we need to do, though, is not so much concentrate on those differences as on how we can complement each other. That was my first point.

I think in terms of...character...and it goes to the nonprofit, for-profit thing, I think that the nonprofit perspective is a long-term,...integrated perspective. It's caring about both the financial bottom line and the social bottom line....I think in regards to being solid business people and making good deals, we need to do that so that we can take on some of these other uneconomic things that are absolutely necessary to do in community revitalization.

I think another major difference in my experience has been that [for] for-profits, the housing is a means to an end....What we're really about is building the community and helping people empower themselves...if that's what they want to do. And so I think the nonprofits are more likely to be willing to take the time and the energy...to find resources to provide service-enriched housing....Because in our twenty years of experience at Mercy Housing, it doesn’t work if you don’t have those two things linked....And I think one of the measures... when underwriters are looking at these deals is, “Is there a service component to the housing?”

HELEN DUNLAP: And I would add that...we actually demand and underwrite for those outcomes, which are neighborhood revitalization and resident related. And until we do that, we will get them only because in my mind, people can get away with it in a moment in time. And as the environment changes or the resources change, they’re not going to be able to do it and it’s the first thing that goes.

Rachel, you want to comment...on this whole dichotomy?
RACHEL ISKOW: Well, actually, I want to get back to that issue of cutting developer fees...[I]To be a great developer and operator of affordable housing you need to have adequate reserves—both reserves dedicated to the property and a great fund balance.... Everyone sits in a room like this and says “Let’s do project-based capital reserve analysis.” But then when you come up with those analyses, they’re too high, way higher than industry standards. So, [they say] “We’re not going to let you do that. We’re going to cut your developer fee.” And it just goes back to, “How do you build the capacity of any entity to be a great operator if you keep cutting the fees and the reserves?” You can’t.

And the other thing I wanted to say on for-profit versus nonprofit, I used to work with RCHC and we did our best to...venture with for-profit entities. And I have for-profit entities—they only come to me now when we’re going to work in an easy, good, high-rent neighborhood. They do not come to low-rent neighborhoods. They do not take on the hard properties. And to do those hard properties, you need those fund-balances and you need those reserves. So, I’d like to hear about that.

HELEN DUNLAP: This gentleman’s been waiting. Then we’ll come back and circle around here....

UNIDENTIFIED PARTICIPANT: Kind of following the same point...how to solve the problem when a property gets in default...the serious developer, the person that’s in for long range, whether it’s a not-for-profit or for-profit, is going to take a hard look at the negotiations, the terms of that syndicator and the equity source. And the developer, be it a not-for-profit or for-profit, can’t say, “Yes, I’m going to guarantee all operating deficits. I’m going to guarantee tax credits for the next fifteen years, and if you don’t get them for the next fifteen years, I’m going to make up the difference....”

If there’s a problem project, that equity source has to work at it, too. So, our position’s always been “Yes, we’ll agree to a ceiling of x number of dollars that we’re willing to put back in the project...for operating deficit or for loss of tax credits. After that point, we want a matching program of some sort. It may be 50-50. It may be 20-80, whatever. Some arrangement says to that equity user... “If you want to preserve your credits and there’s a problem to solve, let’s get together and work on it and see if it’s solvable...let’s talk it through and determine whether it is feasible, and then let’s jointly work the problem.”

HELEN DUNLAP: I heard first of all that we need to be clear that when we make an agreement to set something aside, it in fact gets set aside.... The second is that the equity partner has to be at the table as part of that economic solution. And not just as a pusher and a shover and a screamer.

David you wanted to comment?

DAVID SMITH: I started out reading partnership agreements, as W.C. Fields once said of the Bible, “looking for loopholes.” I got the deals after they were done and I discovered that most of what [was negotiated] wasn’t worth dog meat. Economic reality was what dictated. So, in fact, lenders have...

DAVID SMITH: ...The best way you create equity terms is the syndicator keeps some amount of its money in his pocket over a period of time, which is about four or five years....The second thing is that I’m surprised in this whole discussion...that nobody remembers...conversions of the late 1970s and early 1980s. NP to LD conversions occurred because nonprofits of the vintage didn’t have the capital to solve their problems and they were forced by HUD or encouraged by HUD to partner with for-profits who would bring in capital and fix deals. For-profits...it’s the scale issue. The larger the organization, the more it cares about fixing the problems that are adverse to the track records. And the larger the organization, the more the organization will do things at a portfolio level which are non-economic on an individual deal level for the benefit of the portfolio as a whole. That crosses both sides.
HELEN DUNLAP: Before we go to the next point, we’ve got at least one investor that I see in the room. Anything that you want to add to this particular conversation?

WENDELL JOHNS: All right. I guess I’ve been drafted….I raise the question: “What is the expectation for an investor, who is supposedly a limited partner…to have some liability that somehow extends well beyond putting their dollars in….And I’d like to hear the panelists talk about that.

LILLIAN MURPHY: I think you’re putting your money into this to do something good, but also you get a very good return….I think the responsibility of the investor is to insure first of all that the economics of the deal are solid. And secondly, that the sponsor is a good long-term owner. I think those are the two things.

HELEN DUNLAP: …I would add one more. And that is that the investor community has to push the allocator community to change the underwriting standards that create the outcomes we’ve been talking about. And developer fees are only a piece of this....

WENDELL JOHNS: …we have to remember that the marketplace needs more investors….And we need to have investors that are motivated for the right reasons…to bring in the kind of discipline that you’re talking about. Unfortunately,…other investors, I think,…decide,”I don’t….want all that pressure, thank you very much. I’m not going to be involved in the market place.

HELEN DUNLAP: Agreed. And we as a community have to prefer investors that are responsible. And we don’t do that sometimes....

UNIDENTIFIED PARTICIPANT: If I can extend this one further step. We’ve been talking about owners as if owner is sponsor. And Wendell got up there and said owner is limited partner—emphasis on limited. But owner is partnership. Owner is a sponsorship entity. One of the things I passionately believe is that the fewer people in this boat the better. I like corporate syndication with an individual investor partner,because when Wendell and Lillian cut the deal, the deal is cut.

I think that the nonprofit perspective is a long-term,…integrated perspective. It’s caring about both the financial bottom line and the social bottom line….What we’re really about is building the community and helping people empower themselves… - LILLIAN MURPHY

HELEN DUNLAP: …I used to talk to a hundred million doctors, dentists and Indian chiefs and I don’t want to do that again. I like centralized ownership entities by committed portfolio investors….I wouldn’t say we need more investors, I’d say we need a cadre of people who buy a lot of this product on a very competitive basis because then they’re all sophisticated and they’re all genuine partners. I need them to be limited and I’ll negotiate their limits, but I need them to be partners.

HELEN DUNLAP: This gentleman has been patiently waiting and he’s going to get to go and then we’re going to ask the panel for one comment apiece....

BARRY HALLA: …As a nonprofit developer, I think one of the best ways that you can determine a good partnership is the split of the profits....We stay focused as a nonprofit on making a profit, because if
we don’t…we can’t do good deals….

…I was at a recent conference and three of the major banks…said, “We would not be sitting here if it were not for CRA pressure.”…It seems like there’s a lot of equity that chases the 9 percent tax credit deals….CRA…maybe should be “X” for a 9 percent deal, “X-plus” for a bond and 4 percent deal, and “X-plus-plus-plus” for a non-tax credit deal, so that you, in essence can satisfy…the financial institutions that want the deal to be shored up – and there’s nothing better than to have a bank as your partner….

HELEN DUNLAP: Thank you. Can I ask my colleagues to wrap?…Lillian?

LILLIAN MURPHY: Just two final comments….I think as nonprofit developers, we need to start using the language that we are making investments in these communities….The news last night here about Boeing and the major tax deferment that the city is willing to make. They don’t talk about that as a subsidy. They talk about it as an investment. And so, to use the word subsidy just for the poor, I think, is really wrong and we shouldn’t be part of perpetuating that.

And second, as a faith-based developer, I get very concerned that the assumption by some in government that the faith-based groups can take over, pick up the slack of the federal government moving out of investing in housing is really naive and dangerous.

WENDY DOLBER: I think I want to say something really different…which is that there’s safety in numbers….Portfolio financing, I think, can be very helpful. And there’s always going to be the weaker property. There’s going to be the faith-based not-for-profit who really wants to earn its stripes, it’s not quite ready yet. And even in terms of tax breaks that could be given or profit that could wash through a portfolio and be used to, you know, enhance one of the weaker properties, I think that it can be tremendously beneficial and economical to go that route….

HELEN DUNLAP: I would predict that in the next few years, that will be a typical topic of conversation that’s just beginning to stick its head through the surface for us. Thank you for bringing it up.

DAVID SMITH: Today, for every deal we finance, we turn down three or four. In that environment, money rules. And in reverse, the rules by which money goes out, determine who the winners are. The financial rules, the allocation rules, the resource rules, dictate the outcomes. If you don’t like the outcomes, if you want the consequences that we have described here, you must change the rules even if that imposes hardship in a transition period. So, my advice to you, as I said to Woodward and Burnstein twenty-eight years ago, “Follow the money.”

HELEN DUNLAP: Thank you. I get the last comment, which is… in the context…of resident and community….that’s why we’re here. But when we come to conferences and start talking, we tend to…focus on things like developers, as opposed to why we need capital to do things that we need to do….Thank you.
Characteristics of Excellence in Investments

Production Finance: Financing Sustainability

Lessons learned about capital finance – debt, equity and subsidy – allocation, terms, oversight, compliance. Financing formulas that enhance or impair long-term excellence. How are risks and returns balanced over the long term to the investors, developers, owners, residents and public/surrounding neighborhoods? How could financing better support long-term excellence of properties and long-term strength of owners?

Lead Presenter: Wendell Johns, Fannie Mae
Moderator: Shekar Narasimhan, Prudential Mortgage Capital Company
Panelists: Larry Dale, Newman & Associates
Joseph Hagan, National Equity Fund
Bob Odman, Minnesota Housing Finance Agency

SHEKAR NARASIMHAN: I’m going to introduce our panel. Their bios are already in the book, so it won’t be in great detail….And then we’re going to have Wendell Johns…present some of the high points of his paper…. We’re going to then have each panelist talk a little bit about the paper…and any particular perspectives they may bring. And then, frankly, we’re going to open it up to you….

The first person to my left, Bob Odman, is the assistant commissioner for the Minnesota Housing Finance Agency. And in that capacity, and with all the interest that Bob has had in affordable housing, they’re the tax credit allocator, they’re also, obviously, the allocator for Section 8, they also oversee development, they do tax-exempt bonds. They provide other sources of capital. So they are a state-agency regulator and capital provider.

To his left is Joe Hagan. Joe is the CEO of the National Equity Fund. Many of you know the Equity Fund; hopefully, many of you have used the Equity Fund. It’s the largest syndicator on the nonprofit side for tax credits in the country, a long history, and based in Chicago.

To his left is Larry Dale….managing director at Newman & Associates, which…according to what he said yesterday, in the last 11 years or 10 years, [is] the largest underwriter of tax-exempt multifamily housing bonds, and also, by the way, the least expensive.

MR. DALE: And most efficient.

SHEKAR NARASIMHAN: And most efficient.

Newman & Associates is a division of GMAC Commercial Holdings. But prior to joining Newman in Denver, Larry was effectively the creator, architect, designer of the Fannie Mae [Delegated Underwriting Servicing] program, and before that he was at HUD….

But Larry designed a delivery system, and….
challenged [him] to say, what would be a perfect and really efficient way to do housing-production finance in this country.

All the way to the left is Wendell Johns, vice president for Affordable Housing at Fannie Mae in Washington, D.C. and the presenter of this paper...which was not officially sanctioned by Fannie Mae....

...Each of the papers that you have in your binder...were done pretty much in isolation from each other, which is why it is quite significant...that there are some threads that run through [them]....So why don't we start with Wendell.

WENDELL JOHNS: Thank you, Shekar. I'll make this brief because the panelists here have a lot of deep thoughts they want to share with you....I'd like to thank Phyllis Klein, who's right here to my left...because Phyllis had just joined Fannie Mae from her prior experience of being the chief allocator of credits in the state of California. And that background, along with her being a lender, was a nice contrast to my developer, operations, financial background. And so, we kind of put our minds together for this particular paper....

There are 30 fundamental points I'm trying to make in the paper. One is that the private finance sector serves the affordable-housing community best when we treat housing as real estate. And that's not to say that we don't understand what community means, and neighborhoods mean. But when it comes to doing the kind of underwriting that's required on these particular properties and protecting other stakeholders...shareholders and others, we have to treat it as real estate. And real estate has with it certain traditional kinds of disciplines that we ought to bring to bear on the situation.

Now, the finance sector does a disservice to the housing community when it doesn't perform proper due diligence – ask all the right questions to really understand all the basic assumptions surrounding the real estate. When we do not hold all of the participants accountable and subject to high standards, it's going to hurt the community, and it's going to hurt the lenders and the investors in the
long run because they aren’t going to receive what they had bargained for to begin with.

We also do a disservice when we consider our investing as charity. And a number of the early investors in low-income housing tax credits treated the industry as charity, and consequently didn’t bring to the table the kinds of hard questions that they should have...to really make sure that the housing was well thought out.

And we also provide a disservice when the process is overly complicated. And as a number of the panelists here know, we’re working very hard to try to make the delivery...of capital as efficient as possible, but there is a long way to go. And because of regulatory concerns along with various reporting requirements, it remains complicated, and we have to figure out how to get rid of those complications.

Now, another fundamental point...is that private capital should flow to affordable housing for economic reasons. CRA is a regulatory requirement, and...it has provided additional incentive for certain entities to invest in affordable housing. However, for us to really reach the point where we have sufficient resources and sufficient competition, that the market is more perfect, if you will, we have to have consistent economic results to bring forth to investors and other financiers. So what will it take to attract more investors? We’ll try to answer that later on.

Capital needs an exit strategy. As we go into these various housing properties, we have to concern ourselves with what is going to happen at the back end, not with a wink, but with a true understanding of how that property is going to remain affordable over a long-term period of time. We really need to take the guesswork out of it....

...These are considered tax-advantaged investments in the private sector. Sometimes those tax incentives work against you. For instance, accounting methods for these particular investments have changed over time. And one of the main reasons they have changed over time is because one of the additional benefits — the tax losses — depending on how much investment that particular entity has done over time, become a liability and not a benefit to that organization because the tax losses bring down earnings per share. And so, a number of corporations can’t afford to have their earnings per share diminish because of the fact that they have these high tax losses. And so, consequently, you’ve seen certain discouraging attitudes taken towards bond transactions, for instance, where bond transactions were deemed a way to get around the lottery process and help provide more housing faster.

Thirdly, I’d like to say that subsidies don’t have the same discipline as equity. I think we’ve heard this point made in a number of the earlier panels. Why is that? Well,...we have to answer to our regulators to make sure that we have, in fact, invested prudently. That requires us to have a certain discipline. And that discipline needs to be there even to the point sometimes where people have asked us, “Why do you ask so many questions? Why don’t you just get comfortable with what’s there?” We really want to make sure that we don’t make any mistakes.

Subsidies don’t necessarily have that particular discipline because there’s an expectation that somewhere along the line the subsidy is there; it may be deemed an entitlement. It may be deemed that once you’ve received the dollars, that’s all you really need to do going forward. But whatever those reasons are, they don’t seem to have the kind of discipline that’s necessary.

I believe long-term sustainability is possible. I’ve seen it. February 1st marked the 30th anniversary of a [Section] 236 co-op that I lived in back in 1971. And that property has been very successful. It’s housed low-income people all of its 30 years. So I know that it’s possible. And there are hundreds of other examples like that.

How do we replicate that with the current programs that we have, or what do we need to do with the current programs that we have in order to make sure that that continues for thousands of other projects? And with that, I’ll turn it over to the panel.

SHEKAR NARASIMHAN: Wendell, thank you. Who wants to take a crack,...Larry?

LARRY DALE: Well, first of all, I want to both
congratulate Wendell and Phyllis, and observe that in all of my days we were colleagues – I think it was almost 10 at Fannie Mae – I never saw an 8-page paper so eloquently written from Wendell.

...There was only one point on the paper that I wanted to at least highlight and maybe provide a slightly different perspective on, ...this notion that bailing out yesterday’s properties is bad for everyone. I think I understand what you’re saying, which is using new subsidy dollars to fix old projects doesn’t seem right; that the guy who has the investment in the old projects ought to fix them.

I think as an industry, we have been very slow in responding to problems that we’ve created, and I think that’s hurt us. And so, as a business and as an industry, when something goes wrong, it seems to me that even though in our short-term economic interest on a project level, it may seem like whoever caused the problem ought to fix it. But if they’re not stepping up to the plate, it’s going to hurt us all in the long run if it doesn’t get fixed....

A couple other thoughts that came out of this morning’s conversation....This notion that we’re going to somehow come up with a one-stop shop, streamlined, underwriting platform that’s going to serve everybody.

I’m just betting that in a different world a couple years ago, most of the people in this room were saying, can’t you be more flexible? Here’s my community needs. I need you to underwrite to this community need. Here’s what I’m trying to do...in the service of a specific housing project....It might not work all over the place, but it works here because. And we’ve got to come up with the right blend of an underwriting platform that uses technology efficiently, that may be able to be used by not only equity providers but debt providers – mezzanine debt providers – maybe grantors, maybe public agencies, so there’s easy access to a common base of information that may streamline and make the process quick[er]....I’m afraid if we take this idea of a one-stop, national platform of underwriting too far, we’re going to find ourselves back into a mode where the flexibility that we all need to do what’s necessary in our communities is not there.

I want to provide a little caution on is this idea that preserving affordable housing forever in every situation is the right thing to do. I don’t think it is. Why should we force somebody to live in a community where there’s lots of abandoned housing, where the jobs have left, and we’re going to try and preserve that housing forever? It doesn’t make any sense. –LARRY DALE

The second notion that I want to provide a little caution on is this idea that preserving affordable housing forever in every situation is the right thing to do. I don’t think it is. Why should we force somebody to live in a community where there’s lots of abandoned housing, where the jobs have left, and we’re going to try and preserve that housing forever? It doesn’t make any sense. And in other communities there may be a dichotomy over time where you’ve had what used to be a poor community that’s now a very vibrant community. And rather than having all of the low-income people in the housing project that was built 30 years ago, maybe the right thing to do is to figure out a way to mix that housing project more broadly into the community....

...[Y]ou’ll see communities today that are essentially ghost towns in the rural Midwest. Preserving housing there probably doesn’t make a lot of sense. You see other communities where the housing costs are a quarter of a million dollars for a simple little
apartment. And we’ve got to figure a way
to...preserve some low-income housing, or provide
some low-income housing there. So I think the
preservation concept has to be adapted to the needs
that are specific to individual communities....

I also want to comment on the distinction...between
not-for-profits and for-profits....when it comes to
proper ownership, and competent ownership, and
the capabilities to operate housing effectively, I think
it's more artificial than real in many respects.

And I guess I would just sort of say beware and be
careful for what you wish for,...that is, you get a
zillion preference points, you get more
money,...then assume that people will try and fit
into that box....And you've seen people come to you
and say: “I want you to be a partner,” or “I’m going
to set up my nonprofit, because.” And when that
occurs, there will be people who stay well within the
line, and there will be people who go to the edge of
the line...and ultimately, that will come back and
hurt even the real not-for-profits.

Let’s try and lower the level of verbiage about the
distinctions between who’s best at getting there.
Because I think in the room this morning you could
find for-profit representatives who have been
around for 50 years and have been doing a good job.
You can find not-for-profit representatives who have
been around for 50 years and doing a good job. You
could find for-profits, people who have been
associated with failures in the past, and you could
find not-for-profit people who have been associated
with failures in the past. I think that may not be the
clear distinction, and we need to look at the right
kind of distinctions....

SHEKAR NARASIMHAN: Thank you, Larry. Joe?

JOSEPH HAGAN: Since Larry [Dale] is the chairman
of my board, I want to say that I agree with him a
thousand times.

At NEF we closed on 100 deals last year, and of those
100 deals, probably 30 of them needed first-mortgage
financing. And of those 30, probably 20 of them
needed first-mortgage financing less than $2 million.
And I want to tell you, from a multifamily financing
standpoint, trying to finance a deal under $2 million
is very difficult because there’s really not an efficient
system in place. And for me as an equity provider, I
like the idea of having another set of eyes looking at
my deal, and especially having sort of a good
underwriter from a perspective of first-mortgage
loan underwriter.

At Bank One CDC when I was there, we created
a first-mortgage program for small deals, and it was
for deals less than $2 million. And I have to tell you,
we never set a floor on that. And I remember the
first deal we closed was for $150,000. And it just so
happened that I was refinancing my house for
$150,000, and I looked at the documents that we had
for that $150,000 first-mortgage, multifamily loan,
and I looked at the documents that I had for my
$150,000 loan from my single-family home, there is
about four inches difference between the amount of
paper you needed for that loan versus a single-
family loan.

So I think what we have to do, if we have some
goals, is try to move towards becoming as efficient as
we have become on the single-family side. I think
we also have to figure out how we can do better at
providing first-mortgage financing for loans under
$2 million....

...and having another set of eyes that really look at a
deal from a different perspective....As an equity
provider, we’re looking at a deal to make sure that it
breaks even, but a first-mortgage lender wants to
make sure that it has at least a 20 percent cushion.
They also are another set of eyes looking at your
operating costs, et cetera....

I used to work at a housing-finance agency, and I
used to be on the allocation side. I was one of those
great proponents of saying, hey, if you want tax
credits, you have to say it’s going to be affordable for
the next 200 years, and put that into the system. But I
think that what we all have to remember is after 15
years, there’s really no teeth there...you have these
sort of two-minute foreclosures, and something
happens that they can then walk away from the
property, and then make it a market rate.

I think we have some issues that we’re going to have
to deal with. And I think the only way we’re going to
be able to keep a lot of these properties affordable
and under the tax-credit program is maybe providing some form of tax credits after the 15-year period. I think it’s a big issue that we’re going to have to look to figure out.

SHEKAR NARASIMHAN: Terrific. Bob?

BOB ODMAN: Thank you. First of all, I’d like to thank the Neighborhood Reinvestment Corporation for inviting me here and giving me the opportunity to sit on this symposium and participate. I agree with most of what Wendell said in his paper, but there are a few points that I’d like to take just slight issue with....The first...is that, at the end of the day, affordable housing is real estate. I agree with that to a point. At the end of the day, affordable housing is real estate plus. It’s an investment in people, it’s an investment in neighborhoods, it’s an investment in community.

I agree with Larry on the point of it’s not such a bad idea to bail out yesterday’s problems. Sometimes that can be the most economical, affordable housing that we have. If we lose it, we lose it at a far greater cost than replacing it. None of us are perfect....We all have to measure the risks. And part of measuring that risk is, if we don’t take some degree of risk on this property, we’re not going to be able to do some other developments. If we put all of our money into one property and make it debt free with a lot of subsidy to assure long-term affordability and adequate reserves for the long term, we’re going to do that at an opportunity cost for some other housing. And we always have to take that into account when we make our allocation decisions.

I also agree with the notion that you have to look closely at value, and cost is not value on affordable housing. I think most everybody in this room will recognize that, the economic value, what kind of rents will be produced, will it be adequate to cover the operating costs and sustainability for the long term; that’s the value.

The difference between cost and that value is subsidy. And unfortunately, we’re having to put way too much subsidy in it. The deals are way too complicated today. We’ve tried to overcome that by getting as many funders together as we can in Minnesota. We go out twice a year with a request for proposals. Our main funding round is in the fall when we forward-allocate tax credits for the coming year, and we have sitting at the table with us philanthropic funders, local funders, cities, counties....We also have public housing authorities that have joined us and are now project basing some of their Section 8 in new construction developments to help achieve greater levels of affordability.

One of the things we need to try to do, though, is – I absolutely agree with Conrad Egan...get to a common vision so that we’re only dealing with a minimum number of income and rent restrictions. We have made life far too complicated for you out there operating these properties. I happened to be looking the other day at a supportive housing development. And I couldn’t believe it. We had about five or six different rent and income limits on this, and we expected that owner and property manager to understand that. I could barely understand that.

SHEKAR NARASIMHAN: Well, there’s a common theme again....I don’t think that our panelists and our presenter thinks that the current capital-delivery system is particularly efficient. ...Let me throw you a hypothesis....I’ve seen a study which was initiated by Kent Colton on behalf of the Joint Center for Housing Studies at Harvard. And, essentially, it estimated how much money was being spent to support rental housing in the country, federal and state....It was about $40 billion annually, for federal as well as state and local.

[The study] also looked at...the fact that it took on any given transaction seven different capital sources to make the deal work. And I’m sure each one of you have stories of when it took 15 and 9 and 11. But bottom line, it takes money for you to operate. You need capacity money, you need...development money, you need bridge money, you need equity, you need construction loans, you need primary loans and lots of stuff in between. And it traditionally has come from different sources, everyone with a slightly different angle, twist, motivation or otherwise.

And so, there is a cost attached to the fact that that occurs. And the cost is not just in how long it takes
to do a deal because, traditionally, affordable housing — and we’ve seen nonprofits that essentially had to pay 20 percent premiums to buy the same property just because of how long it took to get there. And that was the cost of waiting, if you will, six to 12 months. And so they were front-ending a lot of the benefits of nonprofit ownership, whether it’s the property tax exemption or the 501(c)(3) bonds into the price....

On a given deal, what is the cost every year of having to maintain and track six different income restrictions, file 14 different reports, satisfy nine people who want to come and inspect it, and so on and so forth. There’s a fundamental cost to affordable housing that is not born in the conventional market.

Two studies indicate that that cost could be as much as 20 to 30 percent — i.e., if you had $40 billion being spent on rental housing today to the federal and state government, if for some reason you wave this wand, and you got rid of these duplications and efficiencies...you could theoretically create $8 billion to $12 billion in new dollars for rental-affordable housing. Okay? That’s just a hypothesis. I hope I woke you up.

Now the question, if you even accept part of that hypothesis — and there seems to experiential proof at any rate — what do you do about that? How do you then take some of the lessons — and I want to go back to something Wendell said and re-emphasize it. Keep the interest of the private capital markets.

Because it’s wonderful to have tax credits and get the Congress to increase them, but if you don’t have buyers, and if you don’t have buyers who are willing to pay reasonable prices, you haven’t achieved nearly as much. The reason we survive with our tax-credit increase is the price of credits went from 40 cents to 80 cents during the course of the same 10-year period.

So how do you maintain private capital markets that are both competitive as well as incented, create an efficient system, and really, frankly, expand the availability of capital for affordable housing?...

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LARRY DALE: Well, I’m going to answer the tax-credit investor question. I’m going to try and stick with that for the minute, as opposed to all the capital sources.

I think of the low-income housing tax-credit marketplace as being a relatively small-niched, specialized marketplace that’s in about stage two of a classic three or four-stage development. It started out with, as you say, prices in the 40’s and yields in the high teens because nobody knew if it was going to be there the next day, and nobody had worked with it before, and it was very small.

We now have seen yields go down...and prices went up, to the point that, frankly, a year ago, people were paying too much for tax credits. And a lot of investors backed away. They were paying too much for reasons other than pure, disciplined investment reasons.
So this is the first time we've seen a correction where yields have gone back up. That's I think very healthy. I think that's a good sign in the marketplace, because, ultimately, you've got to find a floor, and then you've got to bounce along and do the correction for a while before you'll find where the real marketplace is, and you'll have a real volume of buying and selling. And that's sort of the classic capital markets behavior. And it seems to me that we're in sort of stage two, and after we bounce around a little bit, we should find some some sort of real secondary market, some real vehicles. And there will be enough volume in the market now; there will be enough experience in the market that people begin to do risk-adjusted returns; people will begin to feel like they know there is a secondary market there, and they know how to access it. And I think you'll see this market mature to yet another stage probably within the next three, four or five years.

Wendell, how do you attract new capital investors?

WENDELL JOHNS: Well, I think the easy answer is yield and return. But I think that's only part of the answer. I think the other part of the answer has to do with how do we ring out the inefficiencies.

You made the comment earlier, I think, about conventional financing, and...affordable financing, there's a big difference in cost between the two. We have to look at why....And I think a lot of it has to do with regulation. A lot of it has to do with the fact that these are tax driven, and a lot of your conventional transactions don't necessarily have the tax complications that this system does. So maybe there's a way to get rid of that, if you will....

...there are still organizations that shy away from a 15-year investment. We still haven't developed a liquid secondary market for portfolios. There are some that are sold and bought. And I think currently there's going to be a real good test as to how liquid the marketplace is when you look at the portfolios that are being placed on the market by certain utility companies that are out of business. How long is it going to take for those to sell.

And so there are corporations sitting on the sidelines that probably want to see how long that's going to take. Because if it takes too long, that will be justification that, yes, there still is a very illiquid market, and that's not the kind of position that they want to be in when they have to move dollars around very quickly and change their strategy very quickly.

SHEKAR NARASIMHAN: Bob, is there anything that would prohibit the state of Minnesota from enabling a secondary market? Would you guarantee credits to investors?

BOB ODMAN: Guarantee credits?

SHEKAR NARASIMHAN: Yes.

BOB ODMAN: Explain that in more detail. Exactly where are you going with that?

SHEKAR NARASIMHAN: Would you guarantee the return?

BOB ODMAN: Guarantee a return? No way. No way. We take risks. We expect the private investor to take risks as well.

A big concern we have, as the price of tax credits is dropping – and Joe Hagan came up to St. Paul about two weeks ago and...made the comment that he was concerned that there may be some credits that go begging, that they go unpurchased, because as the yields are increasing, and the price is dropping, and the secondary market is coming into play with some of the California utilities....[T]hat [is] going to have a significant impact. That's important.

Also, as the price drops, in order to get a higher yield for the investor, we're still seeing increased land costs, increased construction costs, so the gap is going to be increasing. And unless we see a significant increase in sources of subsidy funding from whatever level of government, or whatever source—be it philanthropic or publicly funded—I think we'll have some problems in being able to utilize the cap increase.
SHEKAR NARASIMHAN: So at least in the short term, you’re saying the problem could actually get exacerbated.

BOB ODMAN: Right.

SHEKAR NARASIMHAN: You might have to go look for that 13th source of financing to fill the new gap that’s just getting created.

Joe, your observations here? What do we have to really do to stimulate this market?

JOSEPH HAGAN: In the last 10 years, we have become very sophisticated. At NEF, we have 933 properties in our portfolio. And literally within that, we can go to just about any city in the United States, and we can give you a sense of what we think the true operating cost is for those properties based on real numbers.

So my point is that we now have a track record. We have systems in place [so] that we really know what’s going on with these properties....As a result,...I think that we can become more sophisticated. And I like the whole idea of figuring out a way where we can maybe do a guaranteed yield program....

SHEKAR NARASIMHAN: Joe, what you’re saying, basically, is create more data, provide more information, and give more value. What I also heard both Wendell and Larry saying is, provide more yield....

JOSEPH HAGAN: Well, here’s what I would love to have happen. I could never figure out why the federal government would first tell the state, here’s how much tax credit you have each year, and then go one step further; this is the maximum number credits you give for a project. Why can’t they just say, State of Ohio, you have $15 million worth of tax credits. You decide where you want to put those credits, and you decide how many credits can go to that project. Why does there have to be a cap on each deal? ....Some deals might require more credits because it’s in a rural area or they’re doing more difficult types of projects. Other deals don’t require as much credit because of the fact that there’s other things to support it....

BOB ODMAN: ...Should we increase the income limit for the tax-credit program, which in turn would raise the rent level, which in turn would get more housing produced in the marketplace....Section 256 and Section 8 programs...started out as mixed-income programs. [Then] they started to ratchet it down to serving the poorest-of-the poor. You ended up with larger concentrations of low-income people and deeper and deeper subsidy requirements.

I present to you that a household with an income at or below 50 percent of median income cannot afford to pay operating costs. They must have a Section 8 subsidy or something like that to be able to afford that housing. And I would also offer that I think a 50-percent rent burden for a household at 50 percent of median is too high. Under the original guidelines for the Section 8 program, that household would have been paying 15 percent of their income....

...And if you look at census data,...what portion of their income does the average renter pay for housing? Anybody in this room...want to venture a guess?...

Yes, 22 percent...across the board, all renters. So if you look at how does the marketplace function...that’s what the average renter will pay or can afford to pay across the board. Now that's based on 1990 census data. I don’t know what the 2000 census data will show. And clearly, it’s better to pay 50 percent, than 50 percent or 60 percent if you were rent burdened before. But I think we need to take a look at some of those things when we talk about changing rental housing, or establishing a national rental housing policy.

SHEKAR NARASIMHAN: I'd love to hear some reactions.

UNIDENTIFIED PARTICIPANT: Bob's comment about raising the income limits, I would strongly oppose that....The conventional marketplace
primarily and ordinarily takes care of the needs of the middle and upper income. And in terms of poor people, or lower-income people, we’ve had to create this craziness that we’re going through right now with these tax credits.

Has it built housing for the lower-income people who need it? Yes. And I think we need to continue to do that....

SHEKAR NARASIMHAN: So your concern is dilution of resources.

PARTICIPANT: Yes....

SHEKAR NARASIMHAN: Okay, finally. Larry, can you jump in?

LARRY DALE: ...I think we’re in the midst of falling into a classic trap, which actually started in the 1960s. Those programs that grew out of the 1960s grew out of an environment where the federal government felt that it had to be very prescriptive and very directive in order to force housing into communities that didn’t want it, for racial reasons, for other reasons. There was a certain mindset that was going on. And I think many of the programs today continue that sort of ethic, that if the federal government doesn’t specify where you dot every “i” and cross every “t”, it’s not going to get done.

We’re in a somewhat different environment today. And I would suggest that we need to be thinking about a broad platform at the federal level. There’s nothing magic about 4 percent and 9 percent. What’s wrong with 7 percent and 15 percent? If you’ve got very low-income housing that’s 15 percent, if you’ve got mixed-use housing that’s 4 percent, if you’ve got something in between that’s 7 or 9 or 11, what’s wrong with different gradations in the percentage of a [tax] credit?... Does the federal government really need to tell us that this bush is depreciable basis because it’s next to the house, and this bush is not depreciable basis because it’s next to the road, that’s pretty prescriptive I would suggest.
And I think the concept we need to be working on is the federal government provides a platform….And then you need a lot of state, and local and other decision making to say, okay, in our community we need to add to that level to meet this need because we in San Francisco want to have policemen and firemen and service workers in our community, and we don’t want to have to be paying a zillion dollars to bring them in from Sacramento….And the federal government can’t write a rule that’s big enough to include that, and include Dayton, Ohio, and include some rural community in South Dakota, and have it all fit under the same rule, if it’s terribly prescriptive....

UNIDENTIFIED PARTICIPANT: This morning, a lot of people nodded at the thought of including more and more costs into projects to provide property for asset-management services….I’d be interested to hear from the panelists whether you have any concerns about what might be a public policy time bomb, that each time that total development cost goes up – no matter for how many good reasons, the per-unit cost goes up, and do we face the possibility of somebody saying, my gosh, they’re spending $300,000 a unit for affordable housing.

SHEKAR NARASIMHAN: And I would just tack onto that. And if it becomes widely known that it cost 20 to 50 percent more than a conventional unit to build that same unit – there are studies that say it – who wants to take that on? How do you justify the costs?...

UNIDENTIFIED PARTICIPANT: I would build on that by saying, what we get suckered into is talking about cost per unit....We’re buying, in the case of our state, 50 years of affordability, and likely many years after that. In the other cases, you’re buying a unit of housing which is at the whim of the market from day one. So it’s two completely different things. And we get suckered into fighting the cost-per-unit battle when we need to be talking about the affordability issue. What we’re really buying is the long-term affordability of the unit to families at a certain income level.

UNIDENTIFIED PARTICIPANT: I’ve got to tell you that [General Accounting Office] is going to come out with a report very soon that shows [the]cost of credits...per unit, compared to other subsidized housing is extremely high....So I think it’s about to get back on the radar screen in a way that it hasn’t for quite a while….I simply urge vigilance on this issue, and don’t stop talking....And give members of Congress and their staffs alternative ways to see the value and not just focus on the cost.

UNIDENTIFIED PARTICIPANT: ...One of the liabilities, to me, of the tax-credit program has been that it doesn’t encourage – or even sometimes enable very easily – mixed-income housing. I just want to note that...it’s not something that’s easy to do or encouraged with the current structure of the tax-credit program. So in addition to thinking about flexibility based on different cost patterns, I would just suggest that’s a public policy goal that we ought to be thinking about being able to do with tax credits....

UNIDENTIFIED PARTICIPANT: One thing I think we need to look at is what is the total public expenditure for providing housing and services in a given location? Over the years, I’ve not been a fan of rehab because operating costs have tended to be higher, and the per-unit rehab costs have been higher.

But of late, I’ve started to look more closely at what are the benefits of doing that rehab deal. Do you have mass transit available? Do you have job opportunities, shopping, basic services, health care, churches, schools? If you have all of those things, and your fundamental public infrastructure—sidewalks, streets, sewer and water—then within that overall context, if you built that housing new in a cornfield someplace in Minnesota, and you had to bring all of that other stuff in, how would that cost compare?

We’re too used to looking at things in isolation. I think we need to look at things from a broader perspective...[It’s not just the housing itself; it’s what is the total public infrastructure cost that we’re dealing with that I think we need to come to grips with....
SHEKAR NARASIMHAN: We have Michael Curran here [President, Enterprise Social Investment Corporation]. And I had prepped Michael a little bit just to talk about the sufficiency issue; what are the rules when you look at the HFAs, when you look at the nonprofit national intermediaries? What could these agents, if you will, do to better manage their ends of a deal? What else could they be doing to improve the efficiency of the system?

Michael, you want to comment on our conversation or that question?

MICHAEL CURRAN: I don’t know if I will answer the question directly, Shekar. It seems to me that a lot of the conversation today — and to some extent, even earlier today — was trying to impose a more market-like discipline and way of viewing the world on an industry that is very fragmented in serving a wide range of people....

So the idea of efficiencies and streamlining, and all of these things are good in one area but not necessarily in other areas....I think more flexibility, more local control is a much better way at getting at some of these things.

SHEKAR NARASIMHAN: So you would deliver all that to Bob and say, you figure it out. You trust him?

MICHAEL CURRAN: With some baseline guidelines that Larry was just sort of alluding to, yes....

UNIDENTIFIED PARTICIPANT: There’s a resource that we haven’t really talked about and some choices that local governments are making with programs like HOME, which is a formula block grant. The choices are essentially made at the local and state level. And to the extent that we get $1.8 billion a year, that essentially buys about 80,000 units a year....

I think there are lots of state and local choices that don’t involve tax credits at all; that much of our rental production really is one to four-unit properties. From the HOME perspective, about 6 percent of our HOME projects have tax credits....

WENDELL JOHNS: I just wanted to support this idea of providing as many resources as you can down to the local level, because in looking back at one of the comments that Joe made about the $2 million and under loans,...I don’t think we’re going to fix that situation until we have enough resources at the local level where they can fill the gap....Somebody has to come up with the dollars, and I don’t think the private sector's going to do it....

It just so happened that I was refinancing my house for $150,000, and I looked at the documents that we had for that $150,000 first-mortgage, multifamily loan, and I looked at the documents that I had for my $150,000 loan from my single-family home, there is about four inches difference between the amount of paper you needed for that loan versus a single-family loan. —JOSEPH HAGAN

MICHAEL CURRAN: As a subsidiary of Enterprise Mortgage Investments—set up in partnership with Fannie Mae to help provide long-term financing for these small loans. Fannie has been trying to encourage all of its best lenders to go to that segment of the market. Volume does not get you there. Every deal you’re losing money on, which is $5 million and below. It just doesn’t work.
So Wendell’s absolutely right, in order to provide capital to that segment of the marketplace, there has to be some other resources brought to them, if you’re talking about strictly private capital mortgage.

MARINA PEED: My name is Marina Peed at Gwinnett Housing Resource Partnership in Norcross, Georgia, which is a suburban community in Atlanta, and we’re facing a lot of the challenges that the urban ring folks are facing. And the issue about the small deals is one that I think cannot be ignored and be pushed off for another discussion. Those two, two-and-a-half, three million dollar projects where it’s not feasible to do the bond or the tax credit is something that is of concern to me…for a couple of reasons. One, we went to all the banks in Atlanta. They weren’t willing to work with us, but guess what? Those predatory and sub-prime — I know they’re not always the same — those folks that are working on our homeowners in our communities were willing to help us do the deal.

Now we actually had to think about wanting to do that 18 percent money. At least we can get site control, and then we can use HOME to…rehab…it. Finally, one of our local community banks stepped up at prime plus a half….

But the efficiencies part isn’t just in a scale of the program, or the project, it’s also the process, and the hoops, and the limberness not only of the organization who’s doing it but of the systems as well. And I said to a lender we talked with for almost one year about our project, “…I’ve given you everything but my personal measurements.” And I just share that, that tax credits aren’t the only mechanism.

SHEKAR NARASIMHAN: You’re absolutely right. I’ve been [doing] multifamily lending for longer than most of you want to know. But $10 billion of loans later, this road of making small loans efficiently is paved with good intentions – and carcasses and scars…It is just infeasible to be done as either a scale business or a business that is done automated. I mean, it is something in between a single-family loan and a loan that should be processed with some due diligence at the local level.

The solution used to be, as you well know, savings and loans, community banks. They were the ones that understood. They could drive by. They knew the owner, they knew the nonprofit, they knew the community, and they could do that business efficiently.

UNIDENTIFIED PARTICIPANT: And when we bailed them out,…I guess that wasn’t considered a subsidy. But they didn’t go belly up from making investments in our neighborhood.

SHEKAR NARASIMHAN: That’s a very good point. I wanted to address one point,…but I did want to challenge the assumption that was made this morning, which is that we don’t need to use subsidy money again on deals that have to get reinvented, if you will. Because if we don’t have enough income in the property to be able to do that rejuvenation, it’s going to have to come from somewhere.

And the fact of the matter is that you should know, we bail out banks all the time. We bail out savings and loans all the time. If they do a conventional product, and somehow nobody thinks that’s really wrong – there’s an 18 percent foreclosure rate in 1991 on commercial properties. And I’m a private lender, by the way.

My point is that I don’t think we should be defensive about it, but I think we need to explain—and we don’t do a very good job explaining – the fact that revenues in affordable housing tend not to go up as fast as expenses often do, i.e., if you started with a cushion, the cushion has drained over time, and you have regulatory burdens, which means the resources to do the rehab don’t exist within the project, and therefore, have to come from external sources. And if that means every 10 years you have to get grants to do it, well, that’s what you need because that is what it takes to keep the property up to date.

…We ought to react exactly the opposite…we do want appropriations every year; and part of that appropriation has to be to preserve and rejuvenate….

Wendell, starting with you…you don’t have to define whether it’s a nonprofit, for-profit…What are the
characteristics of a good borrower, first develop, and then maintain, and sustain affordable housing?

WENDELL JOHNS: Well, it’s much easier to approve, if you will, a borrower who has a very large balance sheet, has a large portfolio of successful properties, and a history of managing those properties well and putting money into those properties if need be. Where it gets a little dicey is where you don’t have that large balance sheet, maybe a little bit less than investment grade rating, and you’re looking to a history of behavior or depth of management, experience and confidence to try to offset that.

It’s an area that we are being challenged and we’re working on everyday, particularly as we’ve gotten involved in underwriting 501(c)(3) deals, which we have done. But we’re not at the point where we can crank those through just as easily as we do, let’s say, our standard conventional business with repeat borrowers and developers, where we have all that other information that supports their financial net worth, if you will.

We have to and we will continue to work on better ways to describe what that really is. But I think probably if you look across this room there are some groups here that we’ve financed and some that we haven’t. And some of that may have had something to do with the entity, some of it may have had something to do with the property itself. We have to look at all of those sides of the transaction.

JOSEPH HAGAN: You’re exactly right. I mean, what you have to do is first look at the project to make sure the project is feasible. At NEF, of the $3 billion portfolio, about 99.9 percent of those are with nonprofit entities. And so, we’ve gotten pretty good at underwriting nonprofit deals. And one of the things that we have learned as a result of looking at nonprofits that literally have very, very little net worth, what we have found is when there are problems that, basically, the deals that we do with them, they’re a lot of stakeholders. And it seems like those stakeholders will step up and help get through the issues that are associated with those deals, i.e., the state might have put some money in or the local government might have put some money in. There might have been a church associated with it. And they seem to all get together to figure out how to solve the problem. And that’s one of the interesting things to me.

LARRY DALE: Well, I’m going to duck the question a little bit. I agree with Wendell, the confidence and longevity, and to some extent, money. But I’d like to focus on the nature of the transaction. And I think this morning we delineated sort of being clear on what the objectives are. And I guess once we’re clear on what the objectives are, if the transaction has the interest of all the parties aligned to achieve those objectives; that is, the owner, the syndicator, the manager, the residents, the community. And where you see alignment of the community interest, residential interest, the owner’s interest up front, the ongoing interest of the owner and the manager and the operators, I think there you’ve got the chance for a very high degree of success.

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Now, working at Bank One, and going in and trying to bring a deal with a nonprofit entity before a committee that was so used to looking at other types of borrowers — borrowers that had a net worth — it took a long time for me to learn now to present those types of deals to them. But at the end of the day...really, they’re one in the same, and you just need to understand what the difference is between underwriting a for-profit developer with a huge liquidity that, obviously, can go away the next day, and a nonprofit entity that can lose its executive director that has led that nonprofit entity to become great...and that entity could change completely. So it rests first with the deal, and then you have to look at the other strengths of the general partner.

BOB ODMAN: I agree. You need to look at the organization and their capacity to handle the type of deal that you have in front of you; have they done similar types of developments, how they handled them; the long-term organizational capacity; did they have succession planning, what happens if a key person moves out, leaves the organization for whatever reason, are there people there to...continue its capacity as an asset manager. And liquidity is obviously important, enough liquidity to handle what they have on their plate at the current time, plus the current deal, plus whatever else they might be working on at the given point in time.

SHEKAR NARASIMHAN: I have one quick addition to that, then we’re going to come back with one last comment. And the last question... Do you believe that we should have little mortgages that allow for resets, or do you like long-term, self-liquidating mortgages?

One of the things we look at when we lend to nonprofits, whether it’s in 501(c)(5) bonds or not — and it’s always been intriguing to me that the first conversations we have, having actually worked in one, I was asked the question of how they expect to get funded three years from now. And it tends to surprise a lot of them, so I’m preparing you for it if you ever talk to us.

Most corporations have two elements. They have people, which are very, very important, and then they always have some recurring fee income or recurring source of revenue that says they’ll be around.

We’re doing a $26 million transaction with a nonprofit that’s been around for five or six years, that’s done a great job, that’s very well supported by the city, but there is no fundamental answer to this question in that case. And the answer is that we can’t do the deal with them alone. That doesn’t mean they can’t be part of a deal, but they’ve got to go find someone who can answer that question because what are we betting on here? I don’t want to own the property or manage it, for that matter. That’s not my job.

So anyway, just add to that the question of how you will sustain yourself. It’s not whether you make a profit or you don’t. I’m not creating value judgments,
but do you have a plan? Do you have a business plan or a strategy that shows you’re creating asset management revenues and are going to be in some form able to sustain at least your ownership and asset management of that property. And if you can’t answer that question for me, we can’t do any business.

So, balloon question. There’s always a healthy debate, and everyone agrees that adjustable-rate financing long term for affordable doesn’t make sense because volatility of debt service, and you don’t have the same ability to raise rents and so on. But the question is, should you have 10-year fixed-rate loans—I think we see 10-year, 15-year, 18-year, 30-year, 55-year, and 40-year, so, obviously, [different people] believe in different things. What’s the right answer?...

JOSEPH HAGAN: Ideally for us, it would be an 18-year term, 25-year amortization, and maybe 30-year amortization. We really want to go a little bit beyond the tax credit....

Usually, at the end of 18 years, that’s when we’re going to see the partnership change. Most likely you’ll see an exit of a limited partner, and you’ll be bringing in another entity. And at that time you’ll want to be able to refinance. If it’s a little bit less than 18 years, you might not make the time period.

SHEKAR NARASIMHAN: Wendell, you guys invented the 18?

WENDELL JOHNS: Yeah, the 18 came about to allow some time after the end of the compliance period to gain some financing and not to put all that pressure in year 15 or year 16, to have all these events converge at the same time. So it just tried to allow some cushion.

And speaking of cushion, and really getting comfortable with these transactions, you’re talking about risk mitigation. And all of these transactions have some risk to them. And hopefully, you come up with a way that if something goes bad, you have something you can rely upon.

In the early days of the program, it was price. There was enough cushion in the price that you could put some dollars in, if you had to, to fix something later down the road. Today, with the price being where it is, that’s not available anymore. I see the terms on the debt as being how much risk can the property really stand. And sometimes it might be justifiable to do a shorter period of time, particularly if the goal of the nonprofit is, you want to be in a position where you can own it out right. And if you don’t have to worry about debt or refinancing some debt, you can get to that position a lot faster.

Also, you have to be concerned with the residents. Why have a shock 10 years out when the compliance period isn’t even over, where you have to be concerned, what happens when I try to refinance this? What’s going to happen to the rates?

LARRY DALE: The capital markets are sophisticated enough now to allocate risk in appropriate ways. I guarantee you, if we were in a 15 percent interest rate environment, and it was steep-yield curve, we’d all be looking at doing short-term rates....It’s a risk allocation....

So I think you can make an argument for either case. I think in today’s market you can find vehicles that don’t blow up before the 15th or 18th year, but that do provide rolling resets of interest rates and various kinds of caps and swaps that protect investors and owners adequately, and probably provide marginally lower cost financing over the term of the loan.

BOB ODMAN: And I agree with Larry. In today’s market, though, I prefer fixed-rate, fully amortizing 30 years. That’s what we’re doing.

SHEKAR NARASIMHAN: Excellent. Well, be careful what you wish for. Too much efficiency, too much federal governance. A panel that is extraordinary and certainly, I think, shared a tremendous amount of its intellectual wisdom with you. So thank you.
EVELYN FRIEDMAN: I’m Evelyn Freedman. I’m from Nuestra Comunidad Development Corporation in Roxbury, which is part of Boston....

Our lead speaker will be Michael Bodaken, who serves as the president of the National Housing Trust, which is a national, nonprofit organization devoted to the preservation of federally-assisted or insured multifamily housing. As head of NHT Enterprise Preservation Corporation, Mr. Bodaken focuses on the direct purchase of multifamily, affordable housing properties by joint venture of the National Housing Trust and the Enterprise Foundation.

Next to him is Dan Anderson, who is a senior vice president and director of the Bank of America’s Public Housing Initiative. He leads the bank’s overall effort to provide products and services relevant to the bank’s credit product offerings for financing needs of public housing authorities.

Then we have Jesse Chancellor. Jesse Chancellor is the principal of Chancellor & Associates LLC, a debt-advisory and construction services firm based in Columbia, Maryland. Immediately prior to starting his advisory business, Mr. Chancellor had been the senior vice president for Investments at Municipal Mortgage and Equity LLC, MuniMae, where he was responsible for managing the activities of a specialized team that originated tax-credit multifamily housing bonds nationally.

Then we have Janet Falk. Janet is the CEO of the California Housing Partnership Corporation. Prior to joining CHPC, Ms. Falk served as co-director at Community Economics, Inc., a nonprofit organization that provides technical assistance in housing finance to nonprofit housing developers and local governments and tenant organizations.

And finally, our moderator, Chuck Wehrwein. Chuck is currently the vice president of Mercy Housing, Inc., one of the largest nonprofit developers, owners and managers of service-enriched, affordable housing in the United States. His prior positions include chief operating officer of the National Equity Fund, deputy assistant secretary for Multifamily Housing Programs at HUD, and deputy administrator for Multifamily Housing Programs at the Rural Housing Services. I’ll turn it over to Chuck.

CHUCK WEHRWEIN: Thank you, Evelyn. We’re going to start with a presentation from Michael...
And once Michael completes his presentation, we'll get back to some questions on our panel. So Michael?

MICHAEL BODAKEN: I'm going to try to...refocus, if you will, our attention on good ownership entities, and in particular, focus our attention on building sustainable, excellent preservation entities in the affordable housing field....

The first reason we need such entities, obviously, is we need to have a reason for preservation. And thanks to the good work of the Joint Center for Housing Studies and the Low-Income Housing Coalition, we all know there's five-to-15 million households, depending on how you count, who have worst-case housing needs in this country. And generally, there are two ways to solve that very difficult dilemma.

One would be to produce or give vouchers to five-to-15 million families. I think that would solve that problem overnight. And the last time I looked at the HUD budget, I think there was 32,000 vouchers in it, and we counted that a success. So the other way to at least begin to look at it is...to also preserve and improve what we have, which is truly affordable.

And today, if I impress upon you anything, it is that critical mission that I think we need to focus on.

Very often we look at that problem from a resource-allocation standpoint. We look at what we need to do for a particular deal. We need to know the amount of equity, or the amount of debt, or what kind of soft money we need to do for a particular deal. But if there's something that I think is missing from the debate, it is, in fact, creating excellent affordable housing organizations. And how do we do that?...We have a significant need, we have a significant problem coming at us, and the real question is, how do we build and sustain preservation entities of all stripes?

...I think that the first thing that I would submit to all of you is that this needs to be a core national objective. This is not, I believe, something that can be done at the state or local level only. There needs to be a general, national recognition that there is a
need for sustained excellence in this field, and that needs to be recognized at the national level.... I would discriminate that statement, however, by saying that doesn’t mean they all have to be national entities.... I think it can be local, state, regional, national; in fact, it should be all of those things....[If you accept the premise of the need for such entities, what kind of capital is willing to invest in such entities at its formation stage? If you look at any really rational business plan for an Internet start-up or anything else, venture capital...takes a little bit higher rate of return than...[what] I argue is most likely for preservation entities.

Basically, preservation entities are steady-Eddie type investments, and that what you really need is patient capital, sometimes extraordinarily patient capital to seed such entities. And I think it’s very important that we not overstate what we can do.

What we can do in this business is preserve and improve housing, create neighborhood assets, turn something bad into something good. What we can’t do is solve everybody’s problems and create a rate of return for investors at 15 or 20 percent per year. That I don’t believe is sustainable, and I think it’s very important that we talk about needing, at the very early stages, grants or very low interest-rate investments for both nurturing and seeding our preservation entities.

As you may know, the National Housing Trust...saw that need and created our own internal seed model to create a preservation entity called NHT Enterprise. We did that because we didn’t think we could go to the capital markets or anybody else could go to the capital markets, to create and sustain these CDCs through a mix of grants and low-interest loans. Lots of discussions about the outcome of that particular initiative, lots of back and forth. But a significant national priority was set, done at the federal level. And it was done through two intermediaries, Enterprise and LISC.

I do believe that we are now in the place where we can say to foundations and the government, now is the time to pony up resources not only for CDCs, but for national organizations, for everything in between who are dedicated entities, who are dedicated, mission-committed, business-driven entities who are willing to invest their resources in this kind of an effort....I'm very concerned that if we don’t do that, we will continue to have these small efforts that do some things for small neighborhoods, but don’t really get to scale.

The kind of investment I propose is on the order of $40 million a year, $20 million from the foundations and $20 million from the federal government. Not...an extraordinary amount of money, but I think you would see a dramatic imprint on what could be done....There are a number of funders who I think are interested in this activity, and I would be remiss if I didn’t at least mention those funders. NHT Enterprise after putting its first investment was provided a significant program-related investment from the McArthur Foundation, who continues to support our efforts and others’ efforts in this field. The Fannie Mae Foundation has dedicated itself to this kind of effort. The Ford Foundation in its earlier iteration has done it. You probably know other funders. The W. Alton Jones Foundation in Charlottesville is working on the preservation project.

There’s lots going on in this field that I think we
could take advantage of. And I think it’s important for us to begin the discussion of a collaboration that focuses not only on the resources, not only on the deal points, but on how do we build ourselves to get to scale so that we really do in the end – 10 years from now – say we really did something. We built something up. We not only built it, but we did it right.

So that’s the essence of what I wanted to say, and we can go from there.

CHUCK WEHRWEIN: Thank you, Michael. I think your paper is an excellent springboard from this morning’s discussions on what type of entities and assets were successful, and what we need to think about in terms of the preservation context. So with that in mind, again, we’re going to sort of cut this down into three segments. I think a lot of folks who had a lot of comments they wanted to make this morning about entities and resources and changes that they’d like to see happen will have an opportunity to do so here today….So Janet, I think I’d like to start with you….Have we, in fact, created sustainable nonprofits or preservation entities, as Michael has described them in his paper? And if so, what has the government – and that would be federal, state or local – done to assist in both creating and sustaining those organizations?

JANET FALK: Well, I come from California, and when I talk with Michael and Chuck and other people, they usually say, “Oh, California’s different.” And it is. But I would contend that maybe you’re going to end up being there too in a few years....

I want to make the pitch for, I guess, the opposite model. I certainly recognize there’s a need for these large national organizations. We certainly heard a lot of discussion this morning that seemed to push things in the direction of needing to have large organizations, nonprofit or for-profit, in order to be efficient and operate well in the marketplace. In California, we have a number of organizations that have been around for over 50 years; nonprofits, who have nowhere near 10,000 units, but they have substantial numbers. And they’ve operated well and are doing preservation purchases....

Chuck asked the question, “What can be done to help sustain these, or how have these groups that have been around for 50 years managed?” And it’s been kind of interesting as I’ve watched them, because they started getting most of their support out of CDBG funds, so it was, in fact, federal money at the local level. And they were getting operational and administrative support. And as time went on, cities began to use their CDBG money for other purposes. So the developers turned to developer fees from tax-credit projects, because that’s about when those started happening, and they got into that area. And that’s where they were getting a lot of their organizational support; they’d use their developer fees not just to do other projects but to sustain their organizations. Also, most of the larger ones developed management companies, which is not always a plus and doesn’t always bring in positive cash flow, but over time tends to help sustain the organization.

And the last thing that I wanted to point out about these groups is that I think they’ve diversified. And they’ve diversified both in terms of where they get their operational and organizational support, so they now look to foundations, to CRA lenders, to corporate funders. They do their own fundraising....So I’ve seen groups, more and more, [that] do new construction,...acquisition rehab,...preservation,...special needs. They’ve really got a diversity of experience....[O]ne of the things I would be a little bit concerned about...is that if a group is just focused on preservation....and something happens [to the funding], how are you going to sustain yourself over the long term?

MICHAEL BODAKEN: Well, first I want to be clear – and I’ve tried to be clear – in the presentation in here that I’m encouraging all types of entities to enter into this field....I think the question we have to ask ourselves is, as portfolios come on line, and they’re not all located in L.A. or even Sacramento, how do we handle the transactions that are going to be difficult for one CDC to handle? And in our experience, where we’ve found success is, where a CDC can do it, we should work with that local organization. But where it’s outside of that organization’s general area, they have no interest. There has to be some either national or regional entity willing to take that task on....
There will be a time when the Sacramento Mutual Housing Association can do it without the National Housing Trust or California Housing Partnership because they don’t need us. And then there will be 10 projects offered on the Eastern seaboard, three in Pennsylvania, two in Indiana and two in Florida, and no local nonprofits at all interested in any of those. And I think that we have to have the ability to execute in all of those cases. And I’m not sure we have the ability yet to execute beyond the CDC level in any meaningful fashion....

CHUCK WEHRWEIN: Jesse, how do your experiences match up with what both Janet and Michael have set in terms of stronger CDCs in California versus maybe what they look like across the rest of the country?

JESSE CHANCELLOR: Well, I think I was asked to come here for two reasons. One, is that at MuniMae we built a 501(c)(3) bond business. We were one of the first entities into the business, and what we found was a very uneven group of borrowers across the country. Although we wanted very much to do business with strong and moderately-strong nonprofits, we found that many of our borrowers were weaker nonprofits who needed, and for good reason, wanted to preserve housing in their regions or areas....

The small nonprofits need a lot more handholding. And there was no intermediary, no entity that was set up at that time, to give them that type of help. So we started pairing them with, frankly, consultants that we found were reasonable, not greedy, were willing to transfer knowledge. And after a couple of deals where they’ve made a reasonable return as consultants – or brokers, if you will – they walk away. But they’ve transferred enough knowledge to the nonprofit; the nonprofit can continue on.

So it’s uneven across the country. That’s the nature of local conditions. My argument would be that we take note of that by creating in our own minds parallel systems. There will be a need for national organizations to deal with the type of portfolio that Michael mentioned. There will be a need for a cadre of consultants – capacity-builders, if you will – who can go and work with smaller nonprofits. I don’t think there’s a one size fits all. There’s no national policy. You’re going to have to basically go in and make an assessment.

CHUCK WEHRWEIN: Thanks, Jesse. Dan, any thoughts about other entities that are in this business, other than CDCs and emerging regional and national nonprofits?

DAN ANDERSON: Sure. And let me sort of talk about the national model for a moment....If a portfolio of any meaningful size comes into play, you’re going to run into capitalization-depth issues with regard to that entity immediately. So it’s not simply its existence; [but] its existence appropriately capitalized, which I submit is a problem way beyond $20 million of HUD money and $20 million of foundation money for a couple of years. Some of these portfolios are quite large....

It turns out that in the Northwest, governmental entities are very, very active players in this area, sometimes directly acquiring for their own account, sometimes functioning as risk-share partners with private not-for-profits through a variety of mechanisms that we can get into later. And some of them have built significant portfolios, I mean, not at the [private-sector] 300,000 level, but at the two, three, four, five, six-thousand unit level....And a lot of these properties were acquired without the use of tax credits, they’re not radically leveraged, and they actually pump real recurring cash flow today. These are pretty underwritable entities, and they can, subject to the limits of their balance sheet, kind of go out and buy the next one right now without a problem and without a complex, interagency-dependent, “Mother-may-I” exercise. So yeah, this does happen on other models elsewhere in the country.

CHUCK WEHRWEIN: Okay, thanks, Dan. Something I think that we need to consider...only 40 percent of the Section 8 inventory is in the geographic domain of CDCs. So even if every CDC was strong enough to take it on, they generally don’t have an interest, as Michael alluded to, of going beyond some of the
geographical boundaries. At least, most don’t as of now. And that doesn’t even get to the issue of capacity.

On top of that, we’ve got expirations happening over a fairly finite period of time, over a period of four or five years, depending on how long some of these things drag out. So there’s a need for a lot to happen at once, or for some other source or extension to occur that will allow it to happen over a longer period of time. So, I would truly be interested…with any comments or questions that any folks in the audience have about the capacity of CDCs or other nonprofits to handle this, about other players in the industry, and about any other assumptions that are effectively presented in Michael’s paper. So any comments or questions?

BILL SULLIVAN: Bill Sullivan from Rocky Mountain Mutual Housing Association in Denver. We certainly don’t have all the expertise necessary to do these deals, but we’re not rookies in the business, and we’ve established a good track record and a good portfolio. And we’re continuing to do acquisitions primarily but some new construction. And we’re looking into preservation because the opportunities are presenting themselves to us. We get into a [preservation] deal, and it takes us almost two years to close on 57 units.…

UNIDENTIFIED PARTICIPANT: Chuck, could I comment on that? For every one of those, I think there are going to be the deals that are the cash cows. I think, even in Chicago, you get rising prices. Certainly what we’ve seen is a lot of mark-up-to-market deals. And the for-profits are after them like crazy because they generate so much cash flow. And they’re refinancible. A lot of them need a lot of rehab, so it’s not going to take any longer to do that part than it would on a normal acquisition project.

BILL SULLIVAN: In our area, they’re selling those potential cash cows at the future value. And they’re expecting us as nonprofits to use public money and grant money to subsidize their sale price….Then we have to go back and tap doubly our sources to get the money to do that. And you’re right. There are cash cows out there, but these sellers know that, at least in our region, and they’re extracting every nickel they can on it.

UNIDENTIFIED PARTICIPANT: Well, they all want market price, and that’s what you have to pay.

BILL SULLIVAN: That’s right. And then your public sector says you paid too much for it; we can’t give you a grant.

UNIDENTIFIED PARTICIPANT: …this is not to contradict what Michael’s doing with NHT/Enterprise [Preservation Corporation] or the need for national entities…but I think that Bill does bring out an important aspect: You have place-based organizations that are basically increasing their places….They’re a very different animal from a CDC, which is a very neighborhood focused and which is not going to be able to take on generally the 200-unit project, even if it falls into their neighborhood. They still need Michael to come in and help them figure out how to do it.…

The question, I think, is still there of creating working capital for those organizations, because to take full advantage of the opportunity they often have to expand, they have to find talent, and transactional risk capital.…

MOSSIK HACOBIAN: Mossik Hacobian, from Urban Edge Housing Corporation, in Boston. I think the question is, are you trying to secure the property or are you trying to build community and build residents’ involvement and control, and who’s the best entity to do that, and are there enough resources to do both? Somehow, all three of those questions have to be answered before we can decide what makes sense from a public policy point of view….If your goal is to make sure there’s resident control in community buildings, I think you don’t start out by talking about national entities, because those are not the best positions to build a community. It’s a little unclear to me where to go with this conversation until we bring those other two factors into the discussion.
CHUCK WEHRWEIN: Well, how about that? I think some may question Mossik’s assertion that the only way to bring true resident input into the process is through a community organization. And there’s some argument about whether community organizations have the capacity to survive with lower numbers of transactions coming through and the like. Does anybody want to agree with Mossik’s contention?

GUS DOMINGUEZ: Hi, I’m Gus Dominguez, from the Greater Miami Neighborhoods....The need for the neighborhood-based organizations to do the community type of work, and to get the resident involvement is extremely important. The problem is that it is not recognized by funders, and neighborhood groups are forced to become developers of things that they don’t necessarily have the capacity or the willingness to do....So instead of community-based groups, you have now community-bound groups. They dig themselves in a hole, and they cannot get out of it.

CHUCK WEHRWEIN: Bill?

BILL SULLIVAN: I agree with Gus. And to follow up on Mossik’s assertion, which I agree with too, is you can’t do everything....If you’re going to provide any resident services to the tune of what, Mossik?....$600 dollars per unit per year...you put it above the line, they say you’re too expensive on your expense line. You put it below the line, they say you’re making too much money off the deal. And so, you sit there and make a decision organizationally whether you’re going to do it or not to preserve affordable housing. And maybe over the years you can attract more capital to the deal to provide those services that you’re so good at doing....

MICHAEL BODAKEN: Mossik, I will say this. I think that it’s easy, with respect to national organizations, to paint them with one brush. I know of national organizations—at least two—that only do deals where the residents actually support the deal, and only do deals, in our case, where both the residents supported the deal, and create a community advisory board in the community. And the residents are on the corporation, the 501(c)(3) that runs the deal.

CHUCK WEHRWEIN: Last point, we’ll go to David Smith.

DAVID SMITH: …I think we fall into a trap of fixed-pot thinking that says there is a certain number of dollars; where are we going to commit them? I believe that there are more dollars in the well of the federal government, and the state government, and the local government, and the CRA lender if you show you’re going to get good bang for them....
I like the issue of going where the projects are….In development, you pick your neighborhood and design your project. In preservation, the project picks you, and then you try to figure out whether to save it or not. I think if we as a constituency are clearer about what will get more bang for the dollar, we will get more dollars to do it with….If you have a coherent vision to show a solution,…money will come out of people’s pockets. And I think it is a real mistake to get into fix-pot thinking, because then you get into for-profit versus nonprofit, and big versus little, and regional versus state. And that’s not what we’re about. We’re about the need, and getting more dollars, and showing that we’re worthy of being given those additional dollars.

CHUCK WEHRWEIN: Jesse,…do you believe that there are sufficient resources flowing into organizations?…What is your sense about the sustainability of organizations that have been created?…

JESSE CHANCELLOR: Well, what I’ve observed is there are organizations engaged in preservation with a capital “P” and preservation with a small “p”. And we act as if the world cares about the preservation with a capital “P”. We know it should, but, frankly, most organizations can live better and earn more fees by focusing on garden-style apartments, 1980s-vintage, buying them as right as they can, puff-and-powder rehab, and just running them for cash flow. And frankly, those are the easier deals to underwrite, those are the easier deals to understand. And that’s a sustainable business plan that doesn’t take two years and get you 57 units; that’s going to take six or seven months and get you 550 units. And you can do that on a scale that runs an organization and that sustains an organization.

So ultimately, it becomes a question of the business plan and how the business plan is focused….

CHUCK WEHRWEIN: Dan, as you’ve looked at lending to organizations who are in the business of affordable housing, do you have any concerns about their sustainability and capacity? Do you think that we ought to be considering consolidations or expansions of territories in order to allow groups to strengthen themselves?…

DAN ANDERSON: Sure, as a lending institution that plays on both coasts and multiple points in between, we are concerned about this. We have had entities which we have financed go out of business, sometimes in a ragged, disorderly fashion, sometimes in an organized consolidation with a sister organization that is the survivor, and sort of various flavors in between….There are underwriting issues both around projects and organizations, and you attempt to address both of them….

CHUCK WEHRWEIN: Janet, you mentioned that a lot of California groups have been entrepreneurial in the way that they’ve changed as the landscape has changed and as opportunities have arisen…Do you think California has moved more in that direction than the rest of the country?

JANET FALK: Well, I think that we’re starting to see that happen in lots of other places. The model in California has not been a real CDC model; it’s been more of a housing development corporation model — groups that have been focused primarily on housing and not so much on the neighborhood issues. But they all started out with local community bases.

And what I certainly have seen in the San Francisco Bay area when I first started many years ago is that the groups pretty much had their own territory, and nobody crossed over and did anything in anybody else’s territory. And then development pressures started, and vacant land became scarce, and we didn’t have all that much to rehab at that time. And so, groups sort of began…leapfrogging and going all over, until now, we have many regional groups, and some that even operate state-wide….So the capacity of these groups has grown to take on much larger territories, but they still tend to have local operations, local people on the ground.

I just have to comment on this. We’re getting so business oriented in here — and believe me, I’m the last person who would want to do a deal that’s not economic — but I think with preservation…we’ve got to remember, there are low-income people in these...
units, and that’s why that’s so important. And when that housing goes... in California we’ve lost about 20,000 units already of both assisted mortgages and Section 8 opt-outs. We produce under the tax-credit program 7,000 a year. That would be three full years of tax-credit allocation just to replace what we’ve lost already, and it’s increasing. So this is not a problem I think that any of us can really afford to ignore. And I’m sure those statistics are writ large on a national scale.

CHUCK WEHRWEIN: Any other thoughts, comments, questions for our panelists on the issues of sustainability and the capacity of the nonprofits to jump into this game?...

JESSE CHANCELLOR: I want to return... to the theme of transition.... There’s a need for something bigger and something newer, and it’s partly federal, largely private, but with federal incentives... because we’re in this transition period similar to where we were in the industry, pre-tax credit. We’re all trying to figure it out. We’re all making mistakes because there’s no federal help. We’re doing some very creative things, but ultimately it’s going to lead us... to sort of the next program, the next product, the next series of groupings that make this all work....

...And what that is going to lead to is I think a connection with what’s happening generally in the financial markets. The financial markets have taken note of affordable housing because it’s the growth game. There’s no growth game that they can find in their regular housing finance markets.... So I think there are partners out there and capital pools out there who are looking to understand this. And that’s why we have to think in different ways, because there are partners who can probably help us... if we continue to keep our minds open to the fact that this is a transition period,... and look for the partners that are out there trying to understand how to make money at this and serve their self-interest.

UNIDENTIFIED PARTICIPANT: First, I’d like to say that I think preservation of the existing stock is just absolutely critical.... But... what I have to do to put a project together, it’s brain damage, and it is so inefficient. It cost so much because of the time that’s involved with putting it together, the layers and layers of lawyers, accountants and everything else that comes into play. We actually would save money if we could clean up the housing-delivery system and come up with something that would work better....

CHUCK WEHRWEIN: I’d like to bring one more comment from this morning in, and that was a consistent approach to underwriting or a single template for underwriting.... Bill [Sullivan] talked about how many resources he had to apply to a particular deal, and clearly, that’s a sustainability issue. If one spends a lot of resources on a couple of those deals and you’re a small organization, you’re going to be gone if the deals don’t come to fruition. So I think it’s a critical point....

What sorts of examples can we come up with that can allow preservation organizations to sustain themselves better? I can tell you from personal experience that the inability to collect what are called dividends and our asset-management fees like we talked about this morning — if we could ever clearly define what asset management is. But the ability for nonprofit, for instance, to share economically in a transaction like an old for-profit organization I think is a critical step. So what other sorts of changes in federal or state program approaches, or even in conventional underwriting, would make it easier for these organizations to sustain themselves?

JEFF STERN: This is Jeff Stern. I’m with Enterprise Mortgage.... One of the things that I would love to do as a lender is not just to say to a CDC that lacks capacity, “Go find a partner.” They hate that, but that’s what they need, to go find some sister CDCs, consolidate, focus resources in a larger group to cover a larger area. Don’t compete block by block, compete area by area or city by city. Yes, politically, that’s tough. Yes, somebody, unfortunately, may be out of work, but talk about efficiency, talk about better use of resources, and talk about the ultimate product, just good management, and asset management, and preservation. I think if you could do that, you’d also see tremendous efficiencies, not from the program side but from the production side.

EVELYN FRIEDMAN: Maybe that can happen in
another world, but in Boston I think it would be really hard. And I think the reason is, if it’s community development, it’s not the CDC; it’s the board of the CDC that doesn’t want to do that, which are community people who live and work in a certain neighborhood and have an investment in that neighborhood. But I think that the issue is, the CDCs can be supported if somebody says, “Look, this CDC must get this fee, it must get cash flow; that one point zero debt-service coverage is not adequate.”

ELLEN SEIDMAN: I’m the director of the Office of Thrift Supervision. I find this conversation interesting because I hear the same thing from small thrifts all the time. “Oh, we can’t merge, even though we’re all dying on the vine because of the board, this is a family-member organization....” And at the same time I hear, “Wait a minute, why don’t all those nonprofits merge because in a new financial world there aren’t enough of us to give handouts, particularly grants, to all of the ones that have sprung up over the years.” We work real hard on our guys when they’re having trouble to suggest that merger’s a good idea, and I think that the nonprofit community needs to be doing the same thing.

DAVID SMITH: Two parts, including hopefully a suggestion for Chuck. The first part is, what we’re sounding is the thematic difference between development and acquisition. Development can be very place-based….Acquisition is more driven by a product that is perceived to be a risk….Acquisition is....all fly balls should be caught; no outfielders should run into one another. You should find ways to coordinate what you’re doing so that you see yourselves as being part of the same team playing defense rather than competing [with one another] on offense.

In answer to your question, Chuck—the answer is differentially score CRA. Give extra bonus points for equity-type investments. Give extra bonus points for capacity building. And I would give multiple extra bonus points for levered capacity building—challenge grants or variations like that. And I’ll give the mike back to Ellen.

ELLEN SEIDMAN: I would like to invite all of you to participate in the 2002 redo of the CRA regulations. It is coming up. And what I’d like to say is that we as the bank regulators want to get this right.... We’re going to try to set up a series of focus groups. We’re going to try to do this in a way that generates a lot of synergies among the large and small banks and the community groups, and I really do invite you to participate.

MOSSIK HACOBIAN: I just want to expand a little bit on Evelyn’s comment about CDCs and mergers. I have been involved in conversations with directors of three or four other CDCs over a 15-year period about the possibility of a strategic alliance or a merger....But I also should turn the question around. Everybody tells us to merge and consolidate, but nobody’s prepared to invest in that effort. They think that merging means you’re going to cost less; we think merging is going to mean you’re going to do more, not cost less....I’m ready to consolidate and do more over a larger area, but I don’t see a whole lot of support....So put your money where your mouth is, and you’ll see a lot of consolidation going on.

UNIDENTIFIED PARTICIPANT: One comment on the reality of consolidation after having gone through it at Mercy. We can tell you that we expect to see benefits over the long term, but in the short term it is not an easy process, like any consolidation. And, actually, there’s going to be a Ford study that will be coming out on it soon that I think will be interesting for anybody who’s considering it.

PETER RICHARDSON: Peter Richardson, Vermont....Organizations that are locally based do things that are not redundant of one another. So that a consolidation doesn’t necessarily create efficiency; it can simply create less work done, not more work done. The experience that we had when I was running housing in Vermont was that we always partnered with local groups....It’s hard to do and it’s not efficient, but the vitality would have suffered tremendously if we had abandoned that.

JANET FALK: To follow up on Peter. Let’s not lose the other model of joint venturing. We don’t have to
Consolidate organizations, but there are ways to partner together on a given project. I’ve seen many of those work very well. There’s always a little uneasiness, but people do memos of understanding, and figure out who’s going to do what role, and it’s a way to bring in expertise that one organization has with the local base that somebody else has, or other kinds of skills.

Chuck Wehrwein: Let’s move on to the final element of Michael’s paper, where we talk about ideas and concepts around funding sustainability and organizational capacity. And, Michael, if you could just review the two or three thoughts that you laid out in your paper.

Michael Bodaken: Again, this is about strengthening existing organizations of all types, I want to lay that groundwork. There’s nothing in the paper, for example, about consolidation. There is a lot of discussion in the paper about strengthening and expanding existing organizations of all types. And I laid out three ideas. The first general idea… is not for transactional work; it’s for operating support at a national level of 10 years of funding at $40 million a year for, again, existing organizations on a competitive level, like NCDI….It is $20 million from the federal government, $20 million from funders on an annual basis for operating support only, not for transactional work, because of the balance-sheet issues that I think are inherent in trying to do portfolio acquisitions and others….It should not be limited to any particular geographical area. It should not be politicked out,…and it would be for all kinds of housing—organizations that seek unsubsidized as well as subsidized housing because I think both are necessary to preserve and protect.

The second is [a] federal grant…the H.R. 202 model…that passed in the House….It was at the level of $10 million, and now it’s for national, regional and local organizations to do preservation activity.

And then the third was the internal-seed model that NHT/Enterprise employees – we essentially put money into ourselves. Our sister organizations created another entity and attracted funders that way.

One of the great perversities of this marvelous tax-credit machine we’ve grown over the last 13 years is it has a very strong bias against the generation of anything that looks like earnings…. We’ve sort of — for better or worse — raised a generation of development-fee junkies with extreme development-fee dependence.

—Dan Anderson

What I’ve heard today, which is a fourth idea that is a kind of interesting idea to me….Perhaps if we re-scored the CRA in a way that did make sense and gave bonus points for equity investments in organizational development, then, perhaps, that would be a way to also begin to get at…organizational capacity [and] critical-mass issues which I think [are] so fundamental.

Chuck Wehrwein: Thanks, Michael, for that refresher. Dan, what do you think about these models, and how viable are they, in your view, from a capital standpoint?

Dan Anderson: …[T]here are basically two approaches: There’s gifts, grants and entitlements…and there’s retained earnings….One of the great perversities of this marvelous tax-credit machine we’ve grown over the last 15 years is it has a very strong bias against the generation of anything that looks like earnings…. We’ve sort of – for better or
worse – raised a generation of development-fee junkies with extreme development-fee dependence. And I submit that it's probably not ultimately stable and accordingly not sustainable.

Frankly, one of the things I don’t hear talked about is how much of this discussion was sort of bounded by this sort of hyper capitalization of real estate experience that’s characterized the last three, four, five years. There was a very different experience in the first half of the 1990s. And I’ve got a lot of clients who bought property right and left using every form of 100 percent debt financing, and they didn’t use tax credits. And they have big-time cash flow, which goes to retained earnings off of those properties….

…[T]he thoughtful strategy from a standpoint of the socially motivated investor-owner is to…buy things when they’re cheap not when they’re dear.

CHUCK WEHRWEIN: So you think that David’s clients are going to get a chance to see again how they react in a recession?

DAN ANDERSON: Yeah. And I can’t tell you whether that’s this year or five years from now. But yeah, there will be another real estate recession. It will have a different flavor from the '89, '91, '92 recession. It will be very diagnostic as to who the competent strong players are, as David mentioned this morning. And for the folks who have sort of succeeded in keeping their shoes out of the worst parts of the ooze, it’s going to be a hell of a buying opportunity, as all real estate recessions are.

CHUCK WEHRWEIN: Janet, I know that you’re focusing on some policies in California that deal with organizational capacity and support of that. Can you comment a little bit on what’s going on out there that might prompt some comments or suggestions from the audience?

JANET FALK: Well, what we’re working on is actually not so much organizational capacity as transaction financing. We have a bill that’s in the state legislature right now to provide acquisition financing for preservation deals. Right now, our state-housing finance agency has an acquisition, short-term loan program of two years at about 5 percent interest, but will only fund 70 to 80 percent, like most lenders....This program would provide, basically, the equity piece, the top 20 to 50 percent funded at the state level at a 3 percent interest rate to allow for 100 percent financing for preservation....

Dan,...of course, it makes good business sense to buy cheap, but when these projects come up, they come up. And if we don’t get them now, they’ll convert to market....We don’t have any control over that, so we have to deal with what we’ve got.

DAN ANDERSON: You need to pursue both tracks. One is ultimately dependent on third-party public or private sector largesse; the other one you build yourself....

JANET FALK: I would also suggest retaining earnings is great, but, of course, in order to have earnings, you have to keep having higher rents or you have to have more subsidy in the project....And Chuck, you mentioned increasing dividends for the nonprofits. I would also say that at the same time all these things are a double-edged sword because there’s competition out there in the marketplace that wants to make money on these deals. So the more dividends there are, the more we’re going to get for-profit competition that can bid up the prices....

We’ve seen deals where developers have taken out huge amounts of cash. And if there were some public way of limiting that, that would help decrease the competition in the market, the bidding up of prices. People pay way over market. Agencies like the bond and tax-credit allocating agencies let them. And if we could somehow put some cap on that so that we at least weren’t paying over market, we’d have a better shot at those deals.

CHUCK WEHRWEIN: Jesse, any experiences with any state programs or local programs that might have helped build capacity for preservation entities?

JESSE CHANCELLOR: Can I answer a different question? Because I don’t have the answer to that question....I think if we focus on the tempo of our

CHUCK WEHRWEIN: Janet, I know that you’re focusing on some policies in California that deal with organizational capacity and support of that. Can you comment a little bit on what’s going on out there that might prompt some comments or suggestions from the audience?
business, it’s increasing. And it’s increasing toward integration, it’s increasing toward people understanding it in a broader way, but we’re still in — and I’ll say it again — cylinders of thinking. We think about public monies, we think about tax-credit monies, we think about our game, and what we’ve been doing for the last 10 years...in preservation and acquisition is, frankly, taking money with square wheels and trying to round them off. And we’ve been going to sources of money that don’t do what we want them to do, we’re asking them to be equity, and they don’t like to be 10-year equity. We’ve asked them to be bridge lenders, and they want to be permanent lenders, all those mismatches....

So I would just suggest that if we want policy changes that are going to work to our advantage, we need to bring partners to the table who will change policy because it’s in their self-interest. Just as Fannie Mae was creating residential mortgage-backed securities, but they didn’t become the norm on Wall Street until Wall Street took an interest in them. And there were no changes in Washington to make them happen until Salomon Brothers and Goldman Sachs started catching the train down to Washington lobbying for changes to make the housing market happen.

And I think that’s where we are. If we get those partners...interested...and we keep our minds open to them, not shutting them out because they’ve been outside of our business, we’re in a transition phase to bring them in, and use them as policy partners, deal partners, all kinds of partners.

CHUCK WEHRWEIN: So how do we incent those folks to come in as we think about housing policy in the new millennium, a broader policy? What incentives can we offer to help support and invest in the capacity of organizations?...

Michael,...your paper asserts that the preservation crisis that we face is large, it’s coming at us quickly, and there’s a need to have the ability to act quickly geographically, broadly, and, obviously, the resources that are needed to deal with larger, disparate portfolios. I think that does entail a different capacity than a deal-by-deal type approach. How can we build a capacity in existing organizations ... so that we have the capacity within the country to deal with the multiple expirations, the public-housing tear-downs, and the loss of unsubsidized, affordable housing.

MICHAEL BODAKEN: ...Over the next 10 years we need to preserve and improve over 100,000 units a year in this country at the very least...and we’re not even getting close to that....

CHUCK WEHRWEIN: Okay. We’re going to have to wrap up....Jesse, final point?

JESSE CHANCELLOR: We say we can’t define asset management. Until we define it, we’re not going to get long-term capital to come to the table with comfort, period.

CHUCK WEHRWEIN: Dan?

DAN ANDERSON: I agree with the folks who say it’s ultimately a local, state and federal political problem. Turn up the heat.

MR. WEHRWEIN: Janet?

MS. FALK: I agree.

MR. WEHRWEIN: Michael, you get the absolute last thought.

MR. BODAKEN: I thought this was a Cisco support group. I’m sorry, wrong place. In general, I’m so excited. This meeting couldn’t have occurred two years ago....And it’s important for us to really analyze what’s happening in our industry and what we’re doing. It’s so great to see all of you here. I’m very happy that we’re talking about this issue.

CHUCK WEHRWEIN: All right. Thank you very much.
Funding for Services

Outcome-targeted services can improve both the social and financial performance of affordable housing, but funding these services remains a challenge. What kinds of services bring the most powerful outcomes? How can we design capital funding to include some service provision in operating expenses? What other revenue streams can offer incentives for delivery of high-quality services?

Lead Presenter: Patrick Costigan, The Community Builders
Moderator: William Frey, Enterprise Foundation
Panelists: Trinita Logue, Illinois Facilities Fund
Janet Maccubbin, ICF Consulting

SANDY WILLIAMS: My name is Sandy Williams. I am with the NeighborWorks® Multifamily Initiative, and I would like to take a moment to introduce our panel.

William Frey is the director of the New York office of the Enterprise Foundation. And under Mr. Frey’s leadership the foundation’s New York program has forged an innovative partnership between the City of New York, private corporations, banks, foundations and over 80 nonprofit community-based organizations to efficiently develop decent and affordable housing.

Pat Costigan is with The Community Builders, Inc. He’s senior vice president. And their Community Initiatives division coordinates economic opportunities in support of services for 15,000 residents living in TCB housing.

Trinita Logue is founding president and CEO of Illinois Facilities Fund, which is a statewide, community development financial institution. Under her leadership, the IFF has become a national leader in innovative, nonprofit financial solutions with total assets of $46 million.

Janet Maccubbin is a consultant with ICF Consulting, and she works with owners and managers of assisted housing to communicate a simplified understanding of complex federal programs....

And with that, I’m going to turn the program over to William Frey.

WILLIAM FREY: Thank you....Several years ago...there was a great deal of housing that was being rebuilt and rehabilitated through various means, some through low-income housing tax credits, some through state-government financing, some began to be developed through a combination of private and public financing.

In one case in the South Bronx, we were working with a local church that was developing some housing. And they went to the local community board, and they said, “We’d like the authority to develop 27 units of housing. We’re prepared to support this and we have good management.”...And they turned it down. They said, “We don’t want any more low-income housing in our community. We’ve been saturated with low-income housing....

And [the church] said, “Well, in the housing we’re building a childcare center, which will...not only serve the residents of the building but serve the residents of the community. And [the local community board] said, “We’ll be supportive of that because you’re bringing a resource to the community.”...
And we’ve seen the long-term benefits…the housing looks good, the community is very supportive of it, and it’s a project which really drew people in as opposed to being an isolated project that people identified as “another one of those low-income housing projects.”…

To a certain extent we’re not looking at, in this particular discussion today, just buildings, but at communities….A point I wanted to bring up as well in terms of housing, there’s always been the desire, especially by community-based organizations, to have multiple agendas. We want to do housing for low-income families…and then we want to provide certain kinds of services….

I’d like to…raise a couple of things that we might want to talk about in this discussion….Siting of programs: What is important in terms of the kinds of siting that goes on?... And one of the big questions is, obviously, how do we pay for these programs and how do we pay for the services?

One of the major conflicts we’ve always had is, government has a mandate…to spread its subsidy out as much as it can to produce the most housing units that it can. At the same time, we all know that if there’s housing that’s done right, it will last longer. And it’s always a conflict,…and we struggle with recognizing there is a housing shortage but also recognizing there’s a way that we can look at these things, and we have some lessons learned to help us do it well.

So with that, Pat, I’ll turn it over to you, and you can run through some highlights from your paper.

PATRICK COSTIGAN: Thanks, Bill. My job today…is to get us going by talking, and your job today is to listen. But I would very much appreciate, if you get done before I do, let me know that, so we can move right along.…

How can we more actively build out [the] service side of what we do?...In thinking about this question of supportive services, the role in our housing developments, where we site them [and] how we pay for them,...I came to three basic questions [that] I thought might be useful as we go forward in this discussion.

Number one,...think about housing as a platform for people to move into the American mainstream…the housing platform that we build somehow magically creates this process or pathway into the main-

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Number one,...think about housing as a platform for people to move into the American mainstream…the housing platform that we build somehow magically creates this process or pathway into the main-

stream....And I’ve always said, “Well, what is that?”

If we build the housing,...we make the neighborhood nicer, but exactly how does a person get from the house into the American mainstream? I think we need to think about what the set of activities – what the methodology – is for actually helping people move from a subsidized housing platform into the mainstream....I’m not always sure that that assumption holds up.

The second thing,...what’s the proper focus for us as housers, for people that live in our housing? And I think that’s a different question than what is supportive services, what is human services, how do we help people move from poverty into the American mainstream.

And the third question, which really is fundamental I
think to all of this discussion, is how the heck do we pay for it? There are folks from the foundation community in the room. I'm not going to talk about sort of the conventional, passing-the-cup routine. We all know how to do that, we all need to do that; it's part of what we do. But it seems to me that as housers, we ought to be thinking a little bit differently about how to pay for this. And the question I'm trying to ask our organization, “Is there anything inherent in the structure of housing financing or in the development process itself that can have us think differently about how we pay for the supportive services that we're talking about?”

So those are the questions in addition to the questions that Bill has raised that I want to kind of push us on a bit.

The first question that really comes up is the proper focus for our activity. Right now, we seem to define what supportive services should be as a little bit of everything, a little bit of anything. I know when I came into the Community Builders, we have 60 staff and 25 different sites. And I sat down and I said, well, what is it we do? I heard cradle to grave. I heard prenatal care, I heard soccer leagues, I heard youth programs, I heard after school, I heard seniors, I heard work force, I heard daycare — the whole nine yards. And it seems to me what we've got to think about is...what kind of housing we're building, who lives in the housing, where the housing is, what the needs are, what the assets are, and think more particularly about that.

At the Community Builders we are primarily working with people who live in public and HUD-assisted housing, and we have a responsibility to help those people succeed in our housing. So what is it that we should be doing for very low-income people who may not have had another experience besides public or assisted housing?...

...We think that the proper focus should be on economic self-sufficiency, economic independence...I'm a firm believer in what William Julius Wilson had to say about the truly disadvantaged, that it really comes down to jobs; that economic security is fundamentally what's going to sustain our activity when all of us are gone in five or 10 or 15 years. So we have a strong bias about an employment-based approach to supportive services.

How that gets organized we think is primarily, fundamentally through case management. Case management means a lot of different things. I'm assuming that there are social workers in the room. There's a very defined notion of what case management is in social work. We look at case management in a very specific way of working with a family as a coach on a long-term plan to help them achieve their goals, their dreams, and that economic self-sufficiency.

So fundamentally, we believe the focus ought to be on jobs, the ability to produce income and build assets. And the methodology to achieve that is really by working with a proven case-management process to help families move in that direction.

We’ve been fortunate in our work to partner with a wonderful organization based here in Chicago called Project Match. How many of you are familiar with the Project Match Workforce and Employment Development Methodology? While you're in town, I'd encourage you to take a look at it. It has a 17-year track record of working with folks primarily in public housing. It started at Henry Horner Homes, primarily in public and low-income housing and helping folks that have been out of the workforce, the structurally unemployed, really move into the workforce. We’ve partnered up with them and have learned from them about that case-management methodology.

So we would argue, jobs, case management. And...we've got to make all that really mean something for the family. And by that I mean, a minimum-wage job or even a job with an EITC [Earned Income Tax Credit] on top of it is not always going to get the family there. We need to really think about building the assets of that family...changing circumstances in their life...to position them to have greater choices; to move from assisted housing into market-rate housing, or to buy a home. We really ought to...leave families when we're done working with them with a set of assets so that they can have more choices over their lives, have more control over what they do.

So these are the biases that I bring to this discussion about jobs, making jobs pay, augmenting jobs with things like earned-income tax credits. In our world at the Community Builders, we think it's important
to not only see that someone has a job, see that they sign up every year for EITC, but also to make sure that their kids have access to child health care, which is now available in every state in the country, but we still have folks live in our housing that are not taking advantage of some of these other sort of asset-supporting, if you will, kinds of activities that are out there. So we like to think about wrapping the job with other supports that are out there to help people move forward...

We all understand now about TANF... temporary assistance to needy families, in terms of the time limitations....So, there's a reality out there now that public assistance is really about work anyway. So whatever we may think about the proper focus, there's a social policy...about a work-based approach to managing lives, to managing subsidies to the safety net. And that's something that's part of our social reality now....

And there will be some harsh realities as we start now to face the five-year end of the clock that we'll begin to see with families living in our housing that we need to be mindful of....It's in our economic self-interest to think about how we can help families build their own capacity to earn income, build their assets so that they can continue to pay their portion of the rent and perhaps buy a home in one of our developments. –PATRICK COSTIGAN

How do we pay for all this?....I'm just going to completely neglect the conventional fundraising approach of going around to foundations and to corporations with your hat out....We all know that one....But...how we can use the development process to think about funding services in a different way?

There is direct funding still available from the government....HUD still offers considerable support for resident-related services under resident-service coordinators for both multifamily housing and elderly developments; drug-elimination funds that have a wide latitude on what you can do with them, including child care and workforce and employment-development support.

Youth Build is a wonderful program....If you don't have one in your community, get one as fast as you
can….And certainly, Hope VI has set a wonderful precedent that there ought to be proper funding for supportive services.

Under Hope VI, those of you that work with it know that up to 15 percent of the total development cost of the budget can be satisfied with a firewall to support resident-services cost. When [developers] come up with sort of development shortfalls, they can’t come over and grab that 15 percent….

The second thing, and probably more important as we think about the next four years, is a lot of money from federal agencies is being devolved through the states into local government. Not only with HUD funds;…the Department of Labor, for example, has an enormous budget allocation for Welfare-to-Work funds which states and localities can pretty much choose to spend in the way that they want.

Excess TANF funds,…there’s a lot of flexibility with these kind of funds. So we ought to pay attention to federal funds as they work their way through state government and down into local government….

…Let’s talk not just about a vision of rebuilding the housing, but let’s talk about the…holistic comprehensive approach to all this. Let’s sell that up front….In other words, we won’t come in and develop the housing unless you buy into the supportive services approach to this, and by the way, we need you to pay for that. And that ought to be part of the negotiations up front.

We’ve actually had some success with that in non-Hope VI settings with large HUD-assisted projects. Going in, “You want us to redevelop this? Here is the vision that we think the community really wants, and we’ve got to figure out a way to pay for it.”

There are opportunities up front in negotiating set asides for resident services, for reserves, in the development budget, and…it doesn’t necessarily have to rob Peter to pay Paul. It can come from other sources in the city government….

Same kind of notion in operating budgets. As we build these developments and we are committed under finance-agency guidelines, under tax credits,…to provide supportive services for 25 years…one of the things that we try and insist on…is to create enough margin in the deal where we’re setting aside $50,000, $100,000, $150,000 a year, depending on the size of the development, for an ongoing, resident-services budget. That’s above the line. That is, it gets taken out before we pay debt service back to HUD or to the first-mortgage lender. It needs to be negotiated that way as an important part of the housing-development activity, an important part of protecting the asset….And we’ve been very successful at putting those in each of our budgets.

Tax-credit projects. Of course, in the reverse wisdom of what’s going on at the finance agencies, they say, oh, we want you to take care of everybody for 25 years, then you need to say, okay, great. We’d like to then capitalize a reserve for $250,000, $500,000, $500,000 to do that for 25 years, and we’d like that to be worked into your underwriting. That can work, depends on what state, but it’s certainly something that we ought to be thinking about.

Incentive-management fees in tax-credit deals can also be used. If you do a good job in your lease up, and you meet certain targets…you get an incentive management fee. Well, let’s use it to help people take the next step and get better jobs, or build IDAs.

A lot of that goes back to the point I made earlier about the time to do that is to negotiate it up front; that is there are opportunities in structuring the financing with financing sources, whether it’s Fannie Mae, or the Ford Foundation or the Enterprise Foundation, block grants, whatever,…Think about negotiating that into the deal up front.

Even though I work for a nonprofit developer we try to think like a for-profit developer….That is, where are the opportunities out there to earn money, to earn fees…tax credit projects…historic [tax credits]. You can syndicate a work-opportunity tax credit that’s now available in enterprise communities. The Welfare Reform legislation has tax credits in it that can be syndicated,…or you can get a discount from a for-profit employer as you try and negotiate their participation into a deal precisely because they will be able to claim this credit if you’re brokering it and making it possible for them. So there’s lots of ways to think about, like developers do, how to go out there and earn fees on the financing structure to benefit service activities.
There are other things that folks have been doing...take a “cut” of loan origination fees and use it for something else. Why not take 25 basis points and put it aside to do something?...Why not think about arbitraging something—get a large chunk of capital from the Ford Foundation or...a bank enterprise award?...Why not mark up your two, three, or four percent money, put it at market rates at seven or eight percent, take the spread and devote it to...supportive services?...

Why not have an incentive fee for working with the folks that live in your housing to make sure that they minimize their rent delinquencies, that we reduce the number of evictions? That can all be quantified, by the way, and essentially negotiate that into the structure of the management fees that are going on. So there’s all kinds of opportunities to think about....

And lastly, I read an article by Angela Glover-Blackwell in the New York Times a couple of weeks ago saying a tried and true thing. Why not do land banking? She called it community-building banking or something like that, where essentially you’re just like any other developer. Go out and buy some land where you know we’re going to have major real estate activity going on, and try and capture the increased value over that land over time to benefit the other things that you want to do. Every city in the country has a land-banking program that nonprofits can tap into. And then down the road as the land depreciates, work it into some kind of a buy-out structure where you get financial return on it.

I’ve talked enough. I just want to lay out those ideas for folks to take where you want it.

WILLIAM FREY: Thanks, Pat. Trinita, I’m going to turn it over to you. And you can either speak from some of the ideas that were presented by Pat or talk about your facility fund.

TRINITA LOGUE: Sure,...What we do, of course, is work with nonprofit, human-service agencies on real estate development and lending. So we do everything but housing. In our experience as a lender and developer of facilities for nonprofits, we’re always surprised that the funding coordination between housing and the government-funded social service structure is not greater....

In an ideal world, when you develop affordable housing, or housing for low income, or very low-income individuals – which I think is what we’re talking about – you would go to the service sector and arrange to have all the needs-based services brought in and all the costs covered....

Many CDCs we’ve worked with don’t want to have partnerships with traditional human-service agencies; they want to deliver the services themselves, and they have good reasons for that. Others are perfectly happy to have partnerships, to have a childcare provider come in and manage a program on their site or to send the children across the street to the child care, or down the street to the Y. So I think those are structural issues that have pros and cons and do need to be decided first....

Now, the managed-care model from the health industry is alive and well in human services, as Pat mentioned. Everything is performance-based, including taking care of a 15-year-old fire starter who's been in and out of juvenile-detention facilities. It's performance-based. And this is a very difficult thing and a huge transition in the human-service world....And this simply affects you because you need to understand it if you want to go and try to work with that world....

My final comment...is programs that are open to the larger community always seem to do better. Aligning the property management mission with the mission of delivery services might be the hardest part. The elderly do move on. Children from birth to five do grow up. And so, you’re seeking stability in families, but yet, the people do change and their lives change. And if you develop services around a group of people who are going to move on in their age, if not move out, you may wonder 5 or 10 years from now why you did it. So anything open to the larger community does seem to work better in our experience.

I just want to tell you one more fact for Illinois. In order to qualify for the childcare subsidy in Illinois, you have to be making less than $23,000 for a family of four. We’re talking, real, real poor. That’s all I’ll say for now.
WILLIAM FREY: And Janet has a national perspective on the issue we’re discussing, and I thought that you might give us some of your thoughts.

JANET MACCUBBIN: I work for ICF Consulting, and we have a contract with HUD to help coordinate their Neighborhood Networks Program. It is a program that has 640 centers across the nation as of now in multifamily-assisted housing. HUD provides seed capital for that program through anything from rent increases to uses of residual receipts, reserve or replacement dollars in their multifamily housing. So there is a sort of seed-capital way of getting money. The reason there’s really been a growth in Neighborhood Networks, the common element is a computer center...And it can be everything from computers...[to] childcare centers, to music programs, to elderly programs. It can be everything if the community wants it to be...And...unlike other HUD programs that are mandated from the top; it is something that’s really driven from the bottom. The community creates its own plan of what kind of services are going into that community, and HUD provides initial capital, then, to fund it.

To date, it’s been an unfunded program....Secretary Martínez and the president have appropriated $80 million in [fiscal year 2002] to start funding those centers, which I think could be very exciting for centers that really have made it on a shoestring budget for many, many years.

We were talking about underwriting and operating expenses this morning and how there’s so much of a shortfall. I would have to say that [with] services, that is magnified by about 10. If you’re in the community trying to do services, you’re patching together tons and tons of small pieces of money to try and make it work. You’re often expecting folks who are running those programs to make 20,000 to $25,000 a year, yet, you’re expecting them to get people self-sufficient and to have the skills and resources to do that. And I have to say that, in my opinion, that doesn’t work very well....

But the programs...that have been very successful are very well-funded; programs where you can have an $80,000 per year person that can oversee five or six different centers and can put together some high-level outcomes and objectives and programs, and
can help the on-site folks, who may be your sort of lower-paid folks, start to think about what kind of programs do we need in this community and how do we get them in there.

Funding sources. It gets tougher every year. And I’d have to say when I saw Neighborhood Networks start, HUD put a lot of money into it from the property perspective. And every property was on its own. You didn’t have $25 million grant funds that 3,000 people were competing for. You had your own property resources. And to the extent you maximized and used those resources well, you had money left over for services and for programs, and that was very efficient.

But as days have gone on, and we’re renewing Section 8 contracts, and we’re doing mark-to-market, money has become less and less available for those services....It’s very hard when every year you have to go out and you have to find new dollars....

The Department of Education has a Community Technology Center Grant Program and a 21st Century Learning Center Program, both of which are very well funded....The Department of Commerce....funds technology initiatives....Job-training programs that are based on technology are pretty much imperative these days for upward-mobility career programs.

So those are just some of the things that Neighborhood Networks has worked on nationally and that we have seen.

WILLIAM FREY: I’d like to open it up to people here and get your comments.

UNIDENTIFIED PARTICIPANT: I’d be interested in hearing anecdotes from anybody about things you tried that either worked spectacularly or surprised you by failing spectacularly in this whole economic empowerment area. Getting people who don’t have jobs to have jobs, or acquire job skills, or build assets. What really worked, or what did you think would work and turned out not to...?

RACHEL ISKOW: I’m Rachel Iskow, Sacramento Mutual Housing Association. And when we started getting into those kind of services, we were doing leadership development, and that’s where we focused our energies. Then when TANF was coming down with the five-year limit, we decided to start looking at this whole economic-independence approach.

And we started getting [Memorandums of Understanding] with organizations out there that supposedly were good at what they did. And they’d come in for about six months and have a lot of trouble and, forget the MOU, they were out of there. And I think that working where people live is very different than working in an agency where people walk in or your social worker from the Department of Human Assistance sends you.

So then we started working with agencies and kind of getting them to know the sites and working with them on specific grant proposals, where they would come in and we’d work together on a model that we thought worked....

Specifically, with regards to employment-related things...we have a tendency to say we’re going to do this job training program on this site, and this is going to work for everybody....Be careful about cookie-cutter job-training programs and thinking that everybody’s going to fit in that box. Because I think one of the things our folks have learned is you have a pretty high failure rate when you assume that everybody will necessarily be interested in that high-tech training program that you’re going to offer.

PAT COSTIGAN: I would take that to another level of insistence, if you will. That is, as housers we ought not to be running training programs...we ought to be running – call it case management, coaching, packaging, whatever you want – some kind of a process that lets people have choices. Do they want this kind of training? Do they want to work on their GED? Are they ready to go into the labor force right now? Do they need career advancement? Are they underemployed? We ought to be focusing on that because one size does not fit all....It would be a horrible mistake to bring in a one-size-fits-all program into a housing development and expect it to work for folks that live there. It just won’t.
CATHY McKINNON: Cathy McKinnon, Mutual Housing Association of Greater Hartford. All of you have talked a little bit about the scale needed to do these kinds of programs we’ve been talking about, sort of the on-site learning center versus neighborhood versus borough. And the properties we own, we have units from 14-unit properties to 80-unit properties. And I’m just trying to get a feel for what kind of scale we would need to really implement something.

JANET MACCUBBIN: I think the neighborhood is key. We’ve had some very successful neighborhood-network centers that have not necessarily been located on the property because the property didn’t have the resources to do it. But there was a community center, and there were four other properties in the neighborhood that could be partnered with where the center could serve all four properties. And combined, those four properties had enough resources to sort of bring it together.

So I think it’s making sure you look around your neighborhood and see what’s there as opposed to just serving your 14 units or whatever.

PAT COSTIGAN: It’s a hard one, what you’ve all said about trying to partner up with somebody else. If you don’t do property management, maybe your property management firm has interest in other properties that are broader than just your property, and maybe there’s a way to look for a vehicle, an intermediary, a long-standing player in the community that you can sort of tap into. I think all of us sort of implicitly are saying, don’t do the service yourself; find somebody who can do it, connect to the Boys and Girls Club, work with the PAL...YMCA and YWCAs are wonderful resources.

So when you’re struggling with scale issues, sometimes your best bet is to just go find the best player you can and maybe invest some of your honest resources and negotiating and MOU to get something very specific for your kids, your seniors, whomever.

WILLIAM FREY: Questions? Suggestions people might have?

ALBERT SULLIVAN: We have a number of developments on the west side [of Chicago] where there’s a lot of open-air drug traffic. And talking about neighborhood revitalization, that’s what we need to get to.

We were talking about underwriting and operating expenses this morning and how there’s so much of a shortfall. I would have to say that [with] services, that is magnified by about 10. If you’re in the community trying to do services, you’re patching together tons and tons of small pieces of money to try and make it work. —JANET MACCUBBIN

The streets are not safe and there’s a lot of activity....At any rate, my problem is that we have committed a lot of money that we can better use on upgrading services and what not or facilities to grappling with this community policing problem. We need to transition now from this very expensive process into some community involvement. It’s a different take on community services, but it’s something that’s integral to stabilizing this community and keeping it going.

And I don’t know if anybody’s ever grappled with this....I just kind of wanted to throw it out because we have a very viable resident-service program, we have a computer learning center, we have community gardens. We kind of have the whole range of normal resident services, but that doesn’t stem the
flow of drug trafficking that occurs on the street. And until we really grapple with that, I think we're kind of pushing soft rope on a very steep hill.…

FRANCES FERGUSON: …In choosing and identifying which services you can focus your energy on, it begins with not just the needs of the residents, but in light of managing this asset...you're making a strategic selection about where you focus those service and human-development efforts. And sometimes it's not the kids that you have to start with; it's the crime you have to start with...

TOM LAY: My name is Tom Lay, with Neighborhood Housing Services in Boise, Idaho. And I don't know if this is depressing for you or maybe a glimmer of hope. We've struggled with the same problem....We knew that despite any other services we might try to provide...if we weren't providing, one, a safe, livable condition for our residents; and two, avoiding being the focal point of something that was going to run the entire neighborhood down, then we couldn't even get started.

Initially, we put our own security on site because we had limited response from our local police....And then we followed it up with a visit with the chief of police and the mayor and described what we had to do....We recognized that we are not just looking out for our asset as an organization, but we are looking out for a neighborhood; that is our responsibility.

...[W]e've maintained our private security, just changed its days and lessened the number of days. It was too costly to maintain on an every-night basis....Then discussed with some other people what we're trying to accomplish....It gave us an opportunity to demonstrate to the community at large and governmental agencies that we're committed to that neighborhood and we're committed to have some things happen there, and we're equally as committed to have some things not happen there, which it sounds like you've certainly done.

PAT COSTIGAN: Let me just throw out some very conventional wisdom, but maybe wisdom that we don't pay attention to enough. And that is turning to boys and girls clubs, services, off-duty cops, block watches. All those things are good, but they're all collateral to two fundamental things. And I spent the better part of six years battling a drug market in the neighborhood and learned the hard way.

And I think the answer is think like a banker, think like a speculator, think like a middle-class person that you are. If a drug market was going down in your neighborhood, what variables would you manipulate to control it?

For my money, they come to two. One is leadership. You would get together the people who have the most ability to sort of push on the police, to push on the mayor, to push on who can bring you larger support, and you would push leadership....

The second is don’t neglect the real estate. Drug activity is a place-based activity just like housing. And the only way that we were successful in getting rid of our drug market was we bought the damn thing and we built houses over it. And that may sound a little cynical, but think about that. Drug activity goes on in space or goes on inside of some space. And if you can control the space, you can often times control the activity.

So if we think about this problem like a middle-class person, like most of us are--if it was going down in our neighborhood, what the heck would we do. We would get the leaders out. We would just beat on the mayor relentlessly, and we would think about where the problem is situated, and we would work to control it. Those two variables I think really are probably fundamental to solving the drug traffic....

UNIDENTIFIED PARTICIPANT: Could you talk a little bit about making sure that our programs meet the needs? We've gone through a number of different ways of trying to figure out what that need is....

JANET MACCUBBIN: What we use in Neighborhood Networks is actually a resident survey that tries to identify what are some of the issues that the residents have, whether that's a barrier to jobs, a barrier to employment, service needs that they have. And trying to collect those surveys, sometimes that's going door to door with a survey and actually walking through that with the residents....
The way I’ve seen this really done effectively is that the results are brought to a sort of board, and that might be an advisory board that has a good chunk of residents on it. That advisory board is then responsible for looking at the resources, and then looking at the results of the surveys and making the allocation decisions about what happens on this property.

But by having residents involved in every stage—residents who really understand the larger property as a whole, the real resident leaders—I think you get a much more effective ownership of those programs that actually happen on your property....To me, the key is to keep your residents as involved as possible.

UNIDENTIFIED PARTICIPANT: Just to put a context around that. Whether it’s surveys, it’s having the luxury of having resident coordinators or case managers that can begin assessment processes and initiate relationships, it’s the best way to get the information. That is, not just trying to capture that one point in time, but to set up a process where you’re working with folks over time.

I think the larger context is that there should be a process for getting information and data from a lot of different points. And data can come from hard data. You could get actual information from the property management firm, from HUD, from the housing authority, from the city. Most cities now are getting pretty hip to organizing neighborhood-level data. There’s going to be a rich mine of opportunity with the 2000 Census data out there....

So don’t forget data, hard data on one level. And on the other end of the equation is, don’t forget just talking; if you want to learn more about youth, don’t send somebody out with a survey. Get some kid to sit down with a bunch of other kids who can basically run a conversation and pull the information out, and bring it back to a larger body to sift through. If you want to talk about what seniors really want, don’t send a guy like me in there to talk about it. Sit down, get a couple of the senior leaders to sit down and talk with the seniors.

I certainly would urge that those conversations need to be structured, perhaps facilitated beforehand, because there is a danger of just hearing from the folks that show up and saying the same old thing all the time. But there’s a way to use kids, to use seniors, to use moms, to use dads who don’t live on the property, to get an understanding of what’s going on with those subgroups to shape your planning. But that’s the operative word...planning...

UNIDENTIFIED PARTICIPANT: Pat, I’d be interested in anything you can say about who makes a good case manager? Who are the folks you look for when you’re trying to find somebody who’s going to be really good at this?...

PAT COSTIGAN: Go somewhere that has a good reputation for doing good case management, and sit down and talk to their case managers, and you’ll learn pretty quickly what to look for....

A good case manager is a networker. A good case manager doesn’t really run anything in particular but knows everything, knows everybody. I’ll give you an example of a Project Match case manager sitting in a training session here in Chicago.

We were in a hotel across town. And it was about 2:30 in the afternoon, and there were some of our people coming in that couldn’t check into their rooms because the rooms weren’t made up. And she said, “I’ll be back in 15 minutes.” And to her, what light bulb went off was, they’ve got a problem here in getting their rooms done, and I’ve got a supply of people that I know are going to be better at cleaning the rooms on time. I can solve their problems. Well, the fact of the matter was, they had a large absence that day. She went in, and she negotiated five job commitments on the spot.

A case manager’s got to have that kind of mentality because you’re dealing with individuals. You’re not dealing with set programs. You’re dealing with every family, trying to think what works for that family....So the case manager’s got to be very nimble on his or her feet and a real networker, a real entrepreneur....

And that person’s got to command the respect of the residents that they’re working with. And I think that’s an intangible that you’ve just got to feel out.
JANET MACCUBBIN: Is there an average caseload somebody can handle?

PAT COSTIGAN: The project-management caseload that Project Match recommends is about 60 or 70 to one. But Toby Herr would say, that is a non-hovering, case-management methodology. That is, the job isn’t to sit down all day and listen to problems, and try and solve what to do about the kid who’s got a drug problem and who’s in high school. The job is to connect that person to someone else in that network of resources that’s going to be able to take the time and professionally respond to that particular situa-

tion. So it’s a non-hovering, case-management methodology, and we run them at 1 to 60, 1 to 70.

UNIDENTIFIED PARTICIPANT: The private sector, we don’t give enough credit to. In my previous life, I worked with a private developer in the South Bronx, mom and pop owners of about 2,000 units of housing. But I remember talking about some financing package, the rehabilitation of several hundred units, and a several million dollar deal. And he had just called Ms. Jones to pay her $215 rent. And I said, “Joe, we’re talking about millions of dollars here; you’re collecting Ms. Jones’ rent?” And he says, “This is the most important thing….You have to talk to her. You have to pay attention. This is your bread and butter.”

He talked to her. She pays $215 rent. He gives her $5, asks about the family. This is how you run good small businesses when you don’t have the resources to really bring on all the kinds of services.

WILLIAM FREY: I think some of what I’ve heard here is that, obviously, scale makes a difference. And I think we’ve heard that same theme over and over again today, about the importance of having large resources. It allows you to do more things. But that’s where the majority of us are not at, I think, in terms of the kind of development that we’re involved with. And obviously, the theme of building services, and having good case workers for a longer period of time

In choosing and identifying which services you can focus your energy on, it begins [with] not just the needs of the residents, but in light of managing this asset,…you’re making a strategic selection about where you focus those service and human-development efforts. And sometimes it’s not the kids that you have to start with; it’s the crime you have to start with.

–FRANCES FERGUSON

where they can be shared with other kinds of developments within the community, where there might be a limited period of time where you can build that into the financing, is very critical in terms of the long-term asset management of these particular buildings to help people adjust to the community and help the community to adjust to the buildings themselves. And that is something that’s very important.

And the last point is, that sometimes we don’t have the luxury of having case management, and that’s really the sensitivity that we have to build into the affordable-housing development. That’s part of your job, not just collecting rent, but talking to the residents and making the logical connections that they need to have made here.

That’s some of what I’ve heard here, and there’s lots more that I’ve heard….Anybody else from the panel?

Well, I want to thank the panel, and thank all of you.
Closing Session

Commentators and moderators present observations on the day and focus on future directions in funding, policy and practices to advance toward excellence and sustainability among housing stock and housing owners.

Commentators:  
James Logue, Michigan State Housing Development Authority  
Nicolas Retsinas, Joint Center for Housing Studies

Moderators:  
Helen Dunlap, Shorebank Advisory Services  
Georgia Murray  
Shekar Narasimhan, Prudential Mortgage Capital Company  
Chuck Wehrwein, Mercy Housing  
William Frey, The Enterprise Foundation

FRANCES FERGUSON: ...I’m really pleased that Nick Retsinas is moderating our last panel, and Jim Logue from Michigan State Housing Development Authority – a real leader in the HFA community – has agreed to provide a commentary and be our lead presenter for our wrap-up session.

NICHOLAS RETSINAS: Thank you, Francie. Good afternoon, everyone....Let me give you some sense of the format we’re going to follow....In a moment,...Jim Logue will give his comments... [from] the perspective of the resource allocator, the funder, the person and the entity that many of you said you don’t really understand.... Then we’ll have each of the moderators...I’m going to give them a head start now by laying out two questions....

Now that we’ve listened to this wonderful series of presentations, so what. And, my two questions:...Given what [you've] heard,...given [your] own experiences, what counsel would [you] give to those in the affordable housing business who are looking out upon a portfolio of some projects?... And, as we consider additional activities, additional projects, additional developments, what are some of the things we might think about?

JAMES LOGUE: Thanks, Nick....I feel a little bit like NASA after they sent out a deep space probe and had fifteen years of information they’ve got to digest and it’s literally going to take them fifty years to analyze it....I’m not sure that any of us is in a position, at this moment, to know what we should do with all this stuff, because there’s so much and there needs to be some greater communication, dialogue, and
understanding of what it is we’re trying to achieve, because there are so many different things that folks are trying to achieve.

One of the things I wanted to talk about, because it has come up in most of the sessions that I have attended,...is the tension between resource allocators, which I represent, [being from] a state housing finance agency that allocates the tax credit, mortgage revenue bonds, non-entitlement home, and CDBG, [that] manages a huge portfolio of Section 8 vouchers as well as a variety of McKinney Homeless Funding and a variety of other funding that we at the state level allocate, and the resource users, whom I think most of you represent....

...Let me suggest the tension between resource allocators and resource users is not surprising. It is not unhealthy. In fact, I think it is very healthy. And, if the relationship between the users and the allocators is good, constructive, open, and honest, I think it can generally lead to very good success in developing programs that meet the needs of the community or the state, the region that you’re all doing housing work in....

Let me ask this question: How many of you have attended every qualified allocation plan here in every state where you are applying for tax credits? Raise your hand....Okay, there’s one, there’s two....If you think qualified allocation plans and public hearings are pro forma...that may be true in some states...it’s not true in Michigan. I know it’s not true in a majority of the states that I am familiar with....In most places...it is an open process. And, if it isn’t, there are things you can do about it...but the reality is if you are not participating in the process that allocates the majority of funding for your projects...you’re missing the boat....

...It’s important that you participate in that process and, make your case on issues that relate to your state, and your locality, and your particular type of program....

...And, that goes for home and CDBG on the state level, even the local level. There are plans that have to be publicly debated, public input is expected to be received on. That, I would say, is your first avenue of work and effort.

There may be a national agenda to be developed out of this debate. I can tell you from...having worked...with Congress on reauthorization and expansion of the tax credit and a mortgage revenue bond program, those are difficult tasks. There was some talk in at least a couple of the sessions today about a new housing program that maybe removes all the complexity...there was some moaning and gnashing of teeth about how difficult it is to put all of this stuff together, and that’s true. Unfortunately, that isn’t going to get you a new housing program. Just because it’s difficult and complex and hard to do, isn’t compelling [enough] for Congress to say, “Oh, well, I guess we’d better develop a new program that meets your needs.”

If that were the case, the tax code wouldn’t be what it is. It’s a simple fact.

My suggestion...is this: We have...a workable delivery system for affordable housing in this country, with a combination of the low income housing tax credit...I think, two thirds or more of Congress co-sponsored the increase in the tax credit program....To me, that is a wonderful base upon which to work.

We have other wonderful programs that are doing the job. They’re just not funded to levels that are necessary. HOME is...a great program for enhancing affordable rental housing in combination with the tax credit and for a variety of other uses. It’s flexible, it’s usable, it meets the needs of local communities and, in combination with the tax credit and other resources, it can produce very affordable, very good rental housing.

CDBG works. We’ve got mortgage revenue bonds which, on a smaller scale,...has a role to play in providing affordable rental housing....

Certainly, in other areas, there are challenges that haven’t been met. But, let me suggest that we have the elements of a good workable, affordable housing delivery system in the country, and I would suggest to you that making it simpler is not, in my mind, the first priority. Increasing the resources should be the first priority. We’ll make it simpler if we’ve got the resources, but maybe we do need additional rental production program. Maybe there is room for a new program that would, in conjunction with these other
resources, help in increasing the level of affordable rental housing.

...What can we propose to augment the current system, because, the current system has, frankly, a lot of political support. Tax credit is a very well understood program by Congress...and I maintain it is as good a program as any that’s been developed or could be developed....

I'll end by saying the keys to me are enhancing communication, improving the quality and the

GEORGIA MURRAY: Well, I think the first and foremost was...when you think about the underwriting and you think about all the issues with the underwriting...we really do need to rely on the real data. As...we think about all the issues that we talked about, a lot of it comes down to that initial underwriting, both going in to the allocation and getting all the financing in place. And, if we’re doing it with numbers that are stretched...on the rents we can achieve, or stretched on the occupancy we achieve, and stretched on the fact that nothing will go wrong and it will be the perfect staff and the

There was some moaning and gnashing of teeth about how difficult it is to put all of this stuff together, and that’s true. Unfortunately, that isn’t going to get you a new housing program. Just because it’s difficult and complex and hard to do, isn’t compelling [enough] for Congress to say, “Oh, well, I guess we’d better develop a new program that meets your needs.” If that were the case, the tax code wouldn’t be what it is. It’s a simple fact. –JAMES LOGUE

transparency of the data we have, and working very hard to achieve a good understanding of our perspective roles of allocators and users of resources.

NIC RETSINAS: Thank you, Jim. As I said, we want to ask each of the panelists to answer a couple of questions. Again, the “so what” question. Now that we have taken in this good advice, we have learned lessons, or at least alleged that we have learned lessons. What do we do about it?

Georgia, your panel talked about the characteristics in projects. You had an excellent presentation by Charlie on some of those sort of characteristics. Thinking of all that, what practical lessons did you garner from that discussion that you might want to share with us today?

NIC RETSINAS: Georgia, let me follow-up, if I may...and, again, I’m asking everybody here, aren’t...little white lies are okay because you really want to get the project done?...David [Smith] talked about the offering segments where you have to list the risk factors. And, if any investor ever read those, they would never invest in anything....

GEORGIA MURRAY: I always used to say during
workouts... "Just pretend... that everybody who is affected by this work out is in the room. And, would you still take the same position?"... Think, your mother's in the room... would you still say it?

NIC RETSINAS: Helen [Dunlap], your panel talked about ownership entities and characteristics of ownership entities, but the discussion turned into the creative tensions of mission and market and sort of cultures and perspectives. From that discussion, what advice can you share with all of us?

HELEN DUNLAP: I'm tempted to answer the last question.... I would pick on something that I heard Lillian say. And that is the issue of images and language.... don't define as lies... it's really important that we are clear about which set of beliefs we're triggering in people — positive, negative, or otherwise. And, I don't think... that means we should undercut the criticality of issues that you were just mentioning....

Second,... if we are responsible for taking something forward, this group is simply too small.... If our interest is in building more resources, and not just finding new ways to define programs, then we have to tackle, in my perspective, two additions to the group. One is the folks that aren't here. And, that represents... everybody from... the homebuilders — that would bring an end to any nonprofit set-asides in a heartbeat — to users, neighbors, residents... the critical stakeholder, and yet they're not here.

... And, one of the things our panel suggested early on, but we passed right over, was the importance of human capital. And, it's good that we're part of a training institute... because we simply need to grow a larger cadre of ourselves....

I would hope that, in our attempt to figure out what we've done wrong, we also figure out what we've done right. And, I thought David did some of that well this morning. I would hope that we keep that in mind. I think that we, as an industry, because we are constantly reacting to somebody else's opinion, are constantly trying to change and fix something, and yet there are a number of things that we do well....

NIC RETSINAS: Helen,... any thoughts of the kinds of language and imagery we might use that would resonate beyond the usual suspects?...

HELEN DUNLAP: ... We need to look at outcomes.... We tend to value the dealmaking, the structure, the financing, the resolution of all those issues. That's not what taxpayers and communities and residents have any interest in.... So, we need to be about the business of healthy neighborhoods....

The Minnesota Family Housing Fund and Minnesota Housing Now did that study that shows that children do better in school if they live in a stable home environment.... which we all go "duh," but the reality is that they took that image and they produced significant increases in resources in Minnesota for housing. So, those are the images, and there are lots of them....

NIC RETSINAS: Okay. Shekar [Narasimhan], your panel talked about financing sustainability. And, one of the issues was... we ought to try to ring out inefficiencies and try to have more standardization... more transparency.

On the other hand, you talked about a trend toward "commoditization" that can argue against undertaking some of the developments that we're thinking about. Could you think about that issue as you give your advice?

SHEKAR NARASIMHAN: Sure.... I think we started the conversation about financing because there seemed to be mutual agreement, pretty much across the board, that using the rates of financing sources, using all kinds of gap mechanisms, six, twelve, thirteen different capital sources on a given transaction, has got to be inefficient. And, in addition to costing time, which is obviously money, also cost long-term burdens for the regulatory reporting requirements, complex, and sometimes, unfortunately, conflicting things that have to happen within a transaction and within the project that doesn't necessarily make economic sense. And, those were costs that were burdensome and were being borne by affordable housing. And... I ended by saying, "Be careful what you wish for," which would
be too much efficiency. Because...everybody who's working in neighborhoods and local communities knows, their deal is really truly different and it does require all those different pieces to get weaved together. But it is going to be very difficult to deliver efficiency using the prism of the private market efficiency system. What we ought to be striving for is, instead, a free flowing capital market....

...This whole issue of transparency and common definitions. There's no question that we should be able to write common definitions...we ought to have large databases....Can we have three thousand tax credit deals that are monitored on a routine basis? Can we actually know in 2003 what happened in 2002 when the [1982] deals came due that expired at the end of fifteen years? Or will it all be anecdotal and we'll be sitting in cocktails saying, you know, one went down and the other went south and the third went private and market? Is there going to be a way to manage this so that we can legitimately answer the questions to the policy makers and then the people ultimately that we need money from?

We did strongly, I think,...refute this notion that came up...which was we should not be trying every ten or fifteen years to appropriate money to fix deals that we had done earlier, which is obviously the forty year FHA with the twenty-year Section 8 kind of example....Personally, and I think Larry Dale and certainly others felt, look, this is low-income and affordable housing. There is not adequate cash flow built in here to be able to provide for major capital improvements. And, they don't have the built-in equity increases to do refinancing. So, we're going to need capital grants, soft loans or something ten, fifteen, twenty years into these deals to do it. So, instead of, figuring out a way to build in five hundred dollar or a thousand dollar reserves that just simply won't underwrite a deal, let's just admit that this is affordable housing. We're going to rejuvenate it and, every ten years, we're going to have to go to the Congress and get a capital grant to do it....

But, the point was there was a strong sense that we should be prepared to stand up for what it is we really do. And, we can't make it something it is not, absolutely.

So, let me just finish by commenting on tax credits....In the short term, there really is a little bit of an issue, and it's a combination of many factors which are somewhat unrelated. One is that there has been a diminution in the demand for them...and that's primarily because the industrial companies that were buying them don't need them anymore because they're not making any money. The “dot coms” never bought them and they never needed them. But, in addition to that, you also had another group that had been in the business—utilities—that not only are not buying them, but are actually selling them. So, if you had a three billion dollar demand-supply, this year, you could have as much as about three quarters of a billion to a billion [dollars] in additional supply....

In fact, prices are going down. This's the first time [it] has happened in the fourteen-odd years of this program....We do have a supply-demand imbalance. At the same time, we have...the IRS timed rulings...which have some palling effect if you're a tax credit investor....

So, when you have uncertainty about...the credits themselves going forward, you have a supply demand imbalance, and you have the Congress raising the effective supply in the future, starting in 2002, you should expect that people are now looking much more closely at yield and return....So, there should be some development work done, fairly quickly, on yield and return, and on building a much better secondary market. And, fast. Because, if you’re being offered seventy-five cents [on the dollar] today,...I would say three months from now, you will be offered less, not more...[and] you [will] need that ninth financing source to fill that new gap that's going to be created.

NIC RETSINAS: Shekar,...does the lack of transparency have a benefit? And, if we make everything transparent, might it undermine support from the variety of funding sources that many of affordable housing projects need?

SHEKAR NARASIMHAN: We did have that conversation also. What does it cost to build an affordable housing unit? I've seen some of the cost data, and it's sixty-five to two hundred thousand a unit. And, does it cost more to build it because it's
affordable and has these tax or other subsidies versus conventional. I've seen studies on that, as well. And, if we really knew all those answers, would we like the answer? Would we want it published in the Wall Street Journal?...

But my response is that we need transparency and data for today to understand performance, [not] so much to try and figure out what the loan-per-unit should be...but to understand performance history and then to develop some indexes to benchmark risk and return in different kinds of affordable contexts. If it ultimately led to a major improvement in the capital markets, efficiency of [what] credits trade for, or where bonds can be sold, or, for that matter, if you could sell the tax losses separately,...perhaps... that would create more dollars for affordable housing. But, at this point in time, I think we need to be very careful that we don't undermine the relatively small constituency that supports us on the public-policy side at the federal level....

NIC RETSINAS: Chuck, your panel talked about risk capital for preservation acquisition....Talk a little bit about that discussion, and, again, your advice to everyone about financing for preservation.

CHUCK WEHRWEIN: Yeah, thanks, Nick. I think I'd like to sort of break it up into...immediate recommendations and then some broader ones. On the immediate side,...it seems compelling to suggest that, if one is considering taking on a preservation asset or a group of them, that one would be very wise to not lie to yourself. Because, if you miss on these things, they’re big, they're complicated, and the train wreck could be much worse than with a twenty unit or thirty unit tax credit deal. So, be true to yourself, if not to anyone else....

I think the first thing we need to do is focus on building stronger organizations, both from a financial capacity standpoint, and a human capacity standpoint. There wasn’t as much negative reaction to the threat of different kinds of organizations coming into this environment. The need is so significant and so great. I think the only worries about threats were about the financial resources that might be available to do this and who would get them first. But, in general, I think folks felt that it is a large impending problem that really called for the need for more organizations...and for the organizations that do exist...to build financial and human capacity.

I think the other advice that could come out of this would be to make yourself stronger. Be ready for some of the challenges that are coming. And, be ready for some opportunities that might be showing up in down-market economies. There may actually be positive opportunities to create and sustain affordable housing in those market places going forward....

Look at cooperating more. When we're going to be focusing on portfolios of assets that have a very broad geographic context, they're not going to fit so well into the organizational geographies that we’ve created. And, so it's going to be critical that we think about working together more and with other organizations, and whether or not some organizations might want to work together more permanently.

And, finally, I was struck by something Jim [Logue] said: “Show up at the hearings.” We need to do a much better job, as Helen said, [of] speaking with one voice, once we decide what the problem is and what the solutions might be....

MR. RETSINAS: Thank you, Chuck. Bill, your panel talked about funding for services....Sometimes people need...more than the walls and the roof, but need services....Talk a little bit about what you learned from the discussion, and again your advice and counsel to your colleagues here.

WILLIAM FREY: We initially started out recognizing that there is a significant...lack of affordable housing for very low-income people around the country....Some of the things I heard were, in terms of responsibly underwriting housing,...looking at building in significant reserves and looking at building in a significant amount of capital replacement. And, then, we look at services. As part of that, if you’re looking at long-term basis as far as the asset management and operations of these particular projects.
There’s always going to be this tension. Is it housing or is it going into services?...And there was some recognition that in some of the HUD programs that have been very successful...there has been a benefit to having a large enough scale that there has been some resources from the housing that’s been able to go into the services. That’s not always going to be the case and it’s probably more the exception than the rule.

But, it’s not just the people that benefit from the services, it is also the housing that benefits from it....And, in smaller kinds of developments, we heard from some people in terms of...collaborating with communities...really working with the community residents and finding out what is the right thing in terms of services.

And, finally....the case work model: Whether it’s a permanent casework person,...the critical way in which they work is that they’re more entrepreneurial in really connecting the people and the buildings to other kinds of resources within the community....

NIC RETSINAS: Thank you, Bill. Let’s open it up for a few minutes for questions....

UNIDENTIFIED PARTICIPANT: Yes. It’s a little bit of a question and a little bit of a response....The single scariest and perhaps most profound statement that I’ve heard today...tax credit prices, which have done nothing but go up in cents per dollar for fourteen years, have, in the last four to six months, dropped ten percent. They’ve gone from about eighty-two cents on the dollar to seventy-five cents on the dollar....

And, related to that, there was something Janet Faulk said at the preservation panel. She said, affordable housing does really well in good times. It’s hard to buy in good times, but easy to do in bad times. I have news. It’s hard to do in bad times, because poor people are among the first people to lose their jobs or have their earnings impaired. So, we may suddenly find that we’re differentiating property quality and owner quality a lot sooner than you think. So, I’m going to echo what Shekar said about be careful what you wish for or you may get it.
NIC RETSINAS: Let me ask a last question of the panel. We talked a lot today, and one implication is that it costs more to develop low-income, affordable, subsidized multifamily housing than we are now getting. Help me answer the obvious sort of trade-off question. That is, more resources for one unit means not enough resources with another unit. Help me with your sort of take on that, Bill.

WILLIAM FREY: I think that’s the tension that we’re all dealing with. I think that we all make those decisions when it gets to a certain bottom line, and we have to say no to certain things. And, I think that, for a long period of time, people are afraid to say no, especially the nonprofit industry, because we’re afraid that nothing else will follow. And, I think that there has to be much more of an advocacy attempt to try to influence the decision makers. If you have ten people lining up for affordable housing, the question is do you spend more to build all this in, or do you build more housing? I think we need to come to some sort of compromise.

CHUCK WEHRWEIN: Nick, I think, first of all, the question presumes that there are no additional resources available to fill that gap. I think that’s a presumption we ought not to make, although, we clearly understand how difficult those additional resources might be to come by. What strikes me is there’s a couple of things that will happen. As long as allocators are requiring certain levels to achieve a successful deal allocation, everybody’s going to keep telling them what they want to know, because the one honest group is going to not see a deal next year. And, it’s not like they’re taking a pass on, you know, some levels of fees just to make the deal stronger. They’re just not going to see the deal, and they’re too weak to sustain too much of that.

SHEKAR NARASIMHAN: I think there clearly are costs to be wrung out of the system; just look at the total cost of a single affordable housing transaction—estimates run from nine to eleven percent. There’s too many consultants and too many lawyers in our business. There’s got to be a way to wring some of that cost out of the system.

GEORGIA MURRAY: I don’t know what the answer is. But, the money is there. We spend it differently: if we could somehow figure out how to get those resources realigned so that they’re there at the beginning. They’re there and you can point to them and you can get them so that we don’t have to go through the pain of having a workout.

HELEN DUNLAP: Assuming that our resources are limited and that we have rung the efficiencies out of the system, we then have to choose what we’re trying to achieve. And, I will use an example which everybody can relate to and will inflame. Why are we building more elderly 202 units in this country? There are plenty of apartments, basic elderly apartments, in this country. But, because we are trying to serve poor people who are elderly and need a subsidy.

NIC RETSINAS: Thank you. Let me just spend a couple of minutes and give you my own take on the day. Beside being a fascinating and at times entertaining day, parts of it were disheartening. There was almost, pardon the expression, a masochistic quality to the day, as we all were sort of thinking about the mistakes we have made over the years, and certainly, we have made some.

In some ways, we could have been describing the “dot com” phenomenon, where there are no profits and we celebrate when we don’t lose as much as we lost last year. We are consistently trying to lure investors or subsidizers to make them think we’re smarter than we think we are, and most of our time is spent doing that, and lastly, we have no exit strategy, we just sort of go on and on.

The last time I spoke before the Neighborhood Reinvestment Corporation, I used the line by Sam, the piano player in Casablanca, which is, “the fundamental things apply, as time goes by.” And, much of what we talked about today are the fundamental things that apply. Producing and sustaining affordable housing is really, really important. You all know that. In another month, the Joint Center for Housing Studies is going to be releasing our annual report on the state of the nation’s housing. While we will continue to marvel
at the overall prosperity of the housing market in the United States, some of the statistics we will be talking about, particularly relating to the rental market, will be harrowing. Let me give you a preview of some of them. We’ve lost about five and a half a million units on the private market stock that were affordable back in 1993, up until 1999. Two thirds, seven point five million, of low-income, extremely low-income families, pay over fifty percent of their income for housing, and what’s most interesting about that number, that’s up by a million and a half during the longest period of prosperity this nation has ever enjoyed.

Overall, we estimate that there are about four and a half million unsubsidized renter households in the United States who are low income, and we see the private rental stock having about one point two million units that are affordable. So, there’s a supply/demand imbalance of about three million units, just looking at raw numbers.

This issue is exacerbated particularly because most of the rental stock in this country is aging. The average age of multifamily units in the United States is 54 years. And, in some places, it is much older. For example, here, in Chicago, 80 percent of all the multi-family stock generally was built before 1979. In Boston, my home town, 82 percent. In New York, it’s 92 percent. The improvement of that rental stock will be a major agenda item.

As I listened to the lessons learned and the admonitions, I’ve summarized them with six E’s. I don’t have time to go over all of them in detail, but let me kind of walk through them, because I want to spend my last thirty seconds just on the last one. The first one is economics. This is sort of the truth in development, the truth in management. We heard words like cash flow and market. Basic economics have to be understood, have to dictate how we do our work.

We talked about excellence. Much of the day was about excellence. How do we build and oversee developments that can be sustainable over time?

We talked about enterprise. We talked about this as a business for professionals. For profit, nonprofit, whatever it is....

We talked about environment in terms of the community, the larger community of which these developments, by their very nature, are only a small part of. They don’t define the community. They are affected by and affect that community.

We talked about energy. This is hard work. It’s hard work in the good times, it’s hard work in the bad times. And, it needs a sense of energy.

But, the last E I want you to leave with is equity. And, I don’t mean...the word that isn’t debt. I mean, real equity. Equity in terms of social justice. Equity in terms of a promise where people have a decent place to live. This is hard work. We’ve done a lot of good things, we’ve done a lot of not so good things. But we have to continue. The need is great. We have to pay homage to the definition of this workshop: “Strengthening neighborhoods by creating long-term multi-family assets.” It’s...all about how do we make affordable housing an asset building strategy...for the individuals that live in that affordable housing, and for the communities that are defined in part and are affected by that affordable housing? There is no more important task before us than the task of asset building, for individuals, and for communities. The session today, I think, brings us one step closer towards that strategy. Thank you all very much.
Patrick M. Costigan,
Senior Vice President
The Community Builders, Inc

Patrick Costigan joined The Community Builders, Inc. (TCB) as interim director of human services in 1998, and was appointed as senior vice president in 1999. He is responsible for TCB’s new Community Initiatives division, which coordinates economic opportunities and supportive services for 15,000 residents living in TCB housing. In this capacity, Mr. Costigan oversees 60 staff working at 25 TCB sites. Before joining TCB, Mr. Costigan served as vice president of the Enterprise Foundation of Columbia, MD, for 11 years where, among other responsibilities, he helped to design and implement the Foundation’s neighborhood transformation program in Baltimore’s Sandtown neighborhood.

William Frey,
Director of New York Office
The Enterprise Foundation

William Frey joined the Enterprise Foundation in 1987 as the first director of the New York office, after 13 years of directing four different community organizations and development groups. Under Mr. Frey’s leadership, the Foundation’s New York program has forged innovative partnerships between the City of New York, private corporations, banks, foundations, and over 80 non-profit community-based organizations to efficiently develop decent, affordable housing. To date, the Foundation and its partners have successfully rehabilitated over 10,000 apartments in all five boroughs of New York City.

Trinita Logue,
President
Illinois Facilities Fund

Trinita Logue is the founding president and CEO of the Illinois Facilities Fund (IFF), a ten-year-old statewide, community development financial institution (CDFI). Under her leadership, the IFF has become a national leader in innovative nonprofit financial solutions, and has grown to total assets of $46 million. Previously, Ms. Logue served as assistant director to the Chicago Community Trust, where she developed the IFF.

Janet Maccubbin,
Consultant
ICF Consulting

Janet Maccubbin joined ICF Consulting in 1997. She has experience in the area of multifamily assisted housing with a focus on public policy and resident development programs. She has worked with owners and managers of assisted housing to communicate a simplified understanding of complex federal programs. While at ICF she has worked with the Rural Housing Service, the U.S. Department of Housing and Urban Development (HUD) and the Farm Service Agency to reinvent program guidance and regulations. Prior to joining ICF, Ms. Maccubbin spent five years with HUD as a policy analyst specializing in project-based Section 8 and assisted housing programs.

Michael Bodaken,
President
National Housing Trust

Michael Bodaken serves as president of the National Housing Trust, a national nonprofit organization devoted to the preservation of federally assisted or insured multifamily housing. His knowledge of the U.S. Department of Housing and Urban Development (HUD) insurance and subsidy programs, finance, the affordable housing stock, and affordable housing needs have been invaluable to the stakeholders affected by recent dramatic changes in housing policy and funding. Mr. Bodaken’s efforts have directly led to the acquisition and rehabilitation financing for over 4,000 units involving over $100 million in financing. As head of NHT/Enterprise Preservation Corporation, Mr. Bodaken now focuses on the direct purchase of multifamily affordable
Chuck Wehrwein is currently vice president of Mercy Housing, Inc., one of the largest nonprofit developers, owners and managers of service-enriched affordable housing in the United States. His responsibilities include leading Mercy’s Acquisition Initiative, which is focused on acquiring and preserving portfolios of existing affordable housing complexes across the country. Mr. Wehrwein also oversees the Mercy Loan Fund and its Housing Development Division.

Daniel Anderson is senior vice president and director of Bank of America’s Public Housing Initiative. He is also an officer of Banc of America Securities LLC, and specializes in housing and community development uses of municipal securities. Mr. Anderson leads the bank’s overall effort to provide products and services relevant to the nation’s public housing industry, and he recently pioneered the development of the bank’s credit product offerings for the financing needs of public housing authorities (PHAs). His other activities include helping PHAs to diversify their holdings, reoptimize their real estate portfolios, and accelerate the transformation of public housing. Mr. Anderson also assists local initiatives and nonprofit organizations to acquire, preserve and develop affordable multifamily properties.

Jesse Chancellor is principal of Chancellor & Associates LLC, a debt advisory and construction services firm based in Columbia, MD. During his career, Mr. Chancellor has structured and/or originated approximately $900 million in real estate debt and equity. Immediately prior to starting his advisory business, Mr. Chancellor had been senior vice president for investments at Municipal Mortgage & Equity, LLC (MuniMae), where he was responsible for managing the activities of a specialized finance team that originated tax-exempt multi-family housing bonds nationally. Before joining MuniMae, Mr. Chancellor held a number of positions of responsibility with the Enterprise Foundation, including director of field operations and director of housing finance.

Janet Falk has had extensive experience in the development and financing of nonprofit housing. She was appointed as CEO of the California Housing Partnership Corporation (CHPC) in 1999. Prior to joining CHPC, Ms. Falk served as co-director for 19 years at Community Economics, Inc. (CEI), a nonprofit organization that provides technical assistance in housing finance to nonprofit housing developers, local governments, and tenant organizations. Ms. Falk was involved in over 150 projects at CEI, including new construction, rehabilitation, special needs housing, mobile home parks, tenant purchase of rental properties, and artists’ live/work space. She is particularly knowledgeable in utilizing the low income housing tax credits and tax-exempt bonds for nonprofit projects and in the ways in which local and state governments can most effectively assist the development and rehabilitation of low and moderate income housing.

Wendell Johns is Vice President for Multifamily Affordable Housing at Fannie Mae. He leads Fannie Mae’s efforts to develop and implement innovative loan structures for affordable housing projects, including the New Construction Loan Program and the Rental Assistance Reserve Program.
Mae’s programs and initiatives to purchase bonds and provide equity and debt for rental housing targeted to low- and moderate-income families and other rental markets that are underserved. Fannie Mae provided over $4.5 billion toward these efforts in 2000. Mr. Johns has over 24 years of experience in the affordable housing industry, including his tenure as vice president with the Oxford Development Corporation in various financial, administrative and accounting roles. He also worked with Coopers & Lybrand as a real estate specialist and certified public accountant.

Shekar Narasimhan, 
Managing Director 
Prudential Mortgage Capital Company

As managing director for the Prudential Mortgage Capital Company, Shekar Narasimhan oversees the Agency and Funds Management business units. These units cover Fannie Mae multifamily lending, FHA-insured multifamily and health care loan origination, and the commercial mortgage funds management group, which specializes in core and high-yield investments for institutional investors. Mr. Narasimhan has been first chair of the Commercial/Multifamily Board of Governors and the Multifamily Steering Committee for the Mortgage Bankers Association (MBA), and first chair of the Fannie Mae DUS Advisory Committee. He also was appointed to the Fannie Mae National Advisory Council and served on the Executive Committee of the National Rural Housing Coalition.

Larry H. Dale, 
Managing Director 
Newman & Associates, Inc.

Larry Dale is managing director of Newman & Associates, Inc., a wholly owned subsidiary of GMAC Commercial Mortgage and a leading investment banking firm specializing in financing affordable rental housing. At the same time, Mr. Dale is chairman of the board of the National Equity Fund and president of the Center for Housing Policy. He also serves on the boards of the National Center for Lead-Safe Housing, the Community Preservation and Development Corporation, the Denver Enterprise Foundation and the National Housing Conference. Prior to joining Newman and Associates, Inc., Mr. Dale was president of Mid-City Financial Corporation, a regional multifamily development, financing, and management firm based in Bethesda, MD.

Joseph S. Hagan, 
President and CEO 
National Equity Fund, Inc.

Joseph Hagan is president and CEO of the National Equity Fund, Inc. (NEF), the nation’s largest nonprofit syndicator of low-income housing tax credits. Mr. Hagan joined NEF in 2000 after more than 20 years experience as an investor in and manager of affordable housing development. Prior to joining NEF he worked at Banc One where he most recently served as director of its Capital Markets Housing and Health Care Finance Group and co-manager of its Low-Income Housing Tax Credit Group. Prior to that, Mr. Hagan was CEO for Banc One Community Development Corporation, which he built into one of the largest federally chartered community development corporations in the country. Under his leadership, the Banc One CDC grew from $17 million to more than $350 million in assets over a five-year period.

Bob Odman, 
Assistant Commissioner
Minnesota Housing Finance Agency

Bob Odman has held the position of assistant commissioner at the Minnesota Housing Finance Agency (MHFA) since 1995. For the past seven years, he has been a member of the Minneapolis/St. Paul Interagency Stabilization Group, working on stabilizing and preserving central city rental developments. Previously from 1977 to 1995, Mr. Odman was director of property management for the MHFA. Before that he was a senior housing management officer.
David A. Smith,
President
Recapitalization Advisors, Inc.

David Smith is founder and president of Recapitalization Advisors, Inc. (Recap), a Boston-based firm specializing in the finance of existing affordable housing. Recap works with nonprofit and for-profit owners and buyers, as well as government agencies including the U.S. Department of Housing and Urban Development (HUD) and state housing finance agencies (HFAs). Throughout his 25 years in affordable housing finance, Mr. Smith has a track record of designing and implementing innovative but rigorously sound financial transactions, including workouts, refinancings, resyndications, sales, preservation recapitalizations, prepayments, and debt restructurings. Numerous times a Congressional witness, he was a principal member of the informal Senate working group that eventually led to the mark-to-market legislation enacted in 1997. Since then he has participated with HUD and various state HFAs in designing preservation-related programs and strategies. Mr. Smith is a prolific author, with more than 70 published articles in real estate, valuation, and policy periodicals, and a textbook.

Wendy Dolber,
Manager
Standard & Poors

Wendy Dolber joined Standards & Poors in 1985. She is managing director in public finance ratings and manager of the Public Finance Tax-Exempt Housing and Structured Finance Groups, which consists of 26 analysts, research assistants and support staff in New York, San Francisco, Dallas and Chicago. The Housing Group is responsible for the ratings on most tax-exempt state and local housing transactions. Under Ms. Dolber's direction, the Housing Group has taken the lead in developing rating products expressly designed for unsubsidized affordable housing products and Public Housing Authorities. The Housing Group also has significantly expanded its coverage of issuer credit ratings for state and local housing finance agencies. The Structured Group handles municipal transactions supported by various types of credit and liquidity facilities, as well as secondary market derivative products.

Helen Dunlap,
President
Shorebank Advisory Services

Helen Dunlap is president of Shorebank Advisory Services (SAS), the consulting arm of Shorebank Corporation, and CEO of Shorebank Development Corporation, Shorebank's real estate development company. Prior to joining SAS, Ms. Dunlap was executive director of the National Low Income Housing Coalition. Previously, she was a deputy assistant secretary at the U.S. Department of Housing and Urban Development (HUD) for four years. Before joining HUD, she founded and ran the California Housing Partnership Corporation and worked with Caine Gressel Midgley Slater, Inc. (now CGAdvisors, Inc.), both of which were consulting firms.

Sr. Lillian Murphy,
President
Mercy Housing

Sr. Lillian Murphy has served as president of Mercy Housing since 1987. She is a native of San Francisco and has been a member of the Sisters of Mercy Burlingame religious community for 41 years. She has a master in public health from the University of California at Berkeley and has 17 years experience in healthcare administration.

Charles Wilkins,
Consultant
The Compass Group

Charles Wilkins is a consultant who works with owners, managers, lenders and regulatory agencies regarding affordable housing policy, finance, asset management and property management. He is a financial advisor to the U.S. Department of Housing and Development’s Mark to Market program, and is a member of the Public Housing Operating Cost
Study team. He is the author of Shelter From The Storm: Successful Market Conversions of Regulated Housing, which explores the public policy, affordability, operational and financial consequences of introducing more market forces into affordable housing. As senior executive with the National Housing Partnership (NHP), Mr. Wilkins was responsible for asset management of NHP’s 60,000 units of affordable housing, and for its relationships with Congress and the U.S. Department of Housing and Urban Development (HUD). He teaches asset management to government housing professionals through the University of Maryland. Mr. Wilkins was a member of the Senate Banking Committee working group on Mark to Market and president of the National Affordable Housing Management Association.

Georgia Murray

Georgia Murray is a trustee of the Urban Land Institute, and serves on the board of directors for Capital Crossing, the Friends of Boston’s Homeless, and the Women’s Educational and Industrial Union. Ms. Murray previously served on the board of directors for Lend Lease, and at various times was responsible for leading the Property Management Group, the Asset Management Group, and the Investment Real Estate Group. She was a principal at Boston Financial from 1975 through 1999.

Joy Aruguete,
Executive Director
Bickerdike Redevelopment Corp

Joy Aruguete has served as executive director of Bickerdike Redevelopment Corporation for the past six years. She also supervises the work of Humboldt Construction Company, a for-profit subsidiary of Bickerdike Redevelopment Corporation. Ms. Aruguete is president of the Chicago Rehab Network, which is comprised of community-based nonprofit housing organizations focusing on neighborhood revitalization of Chicago’s communities. Ms. Aruguete also serves as a Mayoral appointee to the City of Chicago’s Community Development Advisory Committee (CDAC) and is currently co-chair of the housing subcommittee of CDAC.

Daniel J. Burke,
Vice President for Development
Chicago Community Development Corporation

Daniel Burke has served as vice president of development for the Chicago Community Development Corporation (CCDC) since 1988. In this capacity he has been involved in the acquisition and rehabilitation of CCDC’s portfolio of 1,650 the U.S. Department of Housing and Urban Development (HUD)-assisted apartments. Mr. Burke also has served as a development consultant for resident councils and nonprofits purchasing housing units under HUD’s Preservation Program in Illinois and Wisconsin. Mr. Burke is an attorney with over twelve years experience as an affordable housing developer specializing in the preservation of at-risk HUD-assisted housing. He specializes in representing nonprofit organizations and residents of HUD-assisted properties in class action lawsuits for the preservation of their homes.

Leslie A. Steen,
President and CEO
Community Preservation and Development Corporation

Leslie Steen is president and CEO of Community Preservation and Development Corporation (CPDC), a nonprofit that creates and preserves financially sound, socially responsible affordable housing, and works in partnership with residents to establish service programs that increase opportunities for community and individual growth. Formerly, Ms. Steen served as director of portfolio finance for the National Corporation for Housing Partnerships (NHP), where she developed tax-credit-eligible projects for low-income housing and worked with lenders and the U.S. Department of Housing and Urban Development (HUD) to refinance troubled properties in the NHP portfolio. She was also the first executive director of Twin Cities Housing Development Corporation, a nonprofit, affordable housing developer created by the cities of St. Paul and Minneapolis and the Minneapolis/St. Paul Family Housing Fund.
The Neighborhood Reinvestment Corporation was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local community-based organizations to revitalize their communities, particularly by expanding and improving housing.

Currently there are approximately 215 independent, locally led nonprofit community development corporations that comprise the NeighborWorks® Network. A key to the success of NeighborWorks® organizations is their partnership-building approach to neighborhood revitalization, uniting residents, private-sector businesses, foundations and local and state governments.

Launched in 1999, the NeighborWorks® Multifamily Initiative is the collaborative portfolio management program for NeighborWorks® organizations whose primary mission is development, ownership or management of affordable multifamily housing. Currently, 43 NeighborWorks® organizations, operating in 30 states and Puerto Rico, belong to the Multifamily Initiative. Together, they own over 20,000 affordable housing units.

The goals of the Multifamily Initiative are to:

A. Develop and preserve 10,000 units between 1999 – 2005
B. Attract $600 million in investment in these affordable properties
C. Strengthen portfolio performance and asset management systems of members
D. Expand learning centers, thus supporting personal asset building by residents of multifamily properties and
E. Increase multifamily resident leadership in member organizations

As a capital partner, the Multifamily Initiative has formed the Neighborhood Capital Corporation (NCC). NCC speeds access to capital designed to enable the preservation and development of affordable multifamily housing. NCC provides predevelopment loans of up to $150,000 and interim acquisition loans for the “top” 10 to 25 percent of value for a property to be acquired for preservation or development. Initially capitalized by Neighborhood Reinvestment, the NCC is now building its capital base through both direct investment and through agreements with lenders who would like to participate in this type of lending.