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COMMUNITY INVESTMENTS

A Community • Economic Development Publication

VOLUME TWELVE NUMBER 1

National Housing Development Corporation

Creating and maintaining affordable housing remains one of the greatest challenges facing community development professionals. Learn about the efforts of a new nonprofit focused on preserving affordable housing.

Equity Capital Creates Rural Jobs

Read about one intermediary's approach to providing rural businesses with unsecured risk capital and how it compares to other equity and venture capital instruments.

CRA Leadership Council Members

Local councils established by the Federal Reserve Bank of San Francisco. Review a list of the 2000–1 Leadership Council members for your state.

Sovereign Lending

A discussion of lessons learned by the Fed's sovereign lending task forces and how they are fostering increased housing and lending opportunities on Native American reservations.

Affordable Multifamily Mortgage Risk—One Lending Consortium's 10-Year History

A look at CCRC's exceptional 10-year record of financing 7,500 affordable housing units. What they have learned, where they go from here and what you can learn.

MAY'00

Community Investments

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Editor's NOTEBOOK by Joy Hoffmann Molloy

Where is the Spirit of CRA?

Since the 1977 enactment of the CRA, a legitimate and complex community development industry has evolved. During this time CRA has been debated, lauded, threatened, strengthened and some argue, watered down. Given the continued scrutiny and ever-present naysayers many, including myself, often question where the spirit of CRA has gone.

When I find myself doubting or questioning the spirit, I need only talk to one of the many friends and colleagues I have in this business to be reminded that the spirit lies in every one of us individually, through our personal commitment to the work we do. I was fortunate to be amongst many of these friends and colleagues (and make new acquaintances) at the recent interagency Community Reinvestment Conference in San Francisco. Over the course of this three-day conference, evidence of the spirit of CRA and the passion so many have for the work was ubiquitous:

CRA Leadership Councils: At the Federal Reserve's CRA Leadership Council orientation and kick-off, close to 60 financial institution council members and 40 of their CEOs, board directors and chairs joined together to recognize the importance of this new initiative designed to encourage bank collaboration on local community and economic development challenges and opportunities;

CRA Awards: Over 70 entries were submitted from across the country for consideration of a CRA Award in the lending, investment, service and community development categories. Ten winners and runners-up were recognized at the conference's CRA Awards luncheon;

Conference participation: Despite the lure of San Francisco, the over 400 conference attendees stayed for and actively participated in general and breakout sessions on funds management, equity investments, and serving emerging markets responsibly, among many others.

It is encouraging to know that the original intent of the CRA, to invest in local communities regardless of location and income, continues to be embraced by many financial institutions who see the social value and financial potential of investment in untapped markets. The result of this outstanding commitment on the part of banks, both large and small, and community-based organizations are visible in communities across the country. The spirit is alive among the players of this phenomenal national movement. Now perhaps it is time for us to spread the abundance of our spirit to financial players not covered by the CRA . . . but that's a topic for another time.

What's Inside

National Housing Development Corporation

A National Effort to Preserve Affordable Housing

By Kathy Kenny and John Trauth

In spite of the robust American economy, the need for affordable housing continues to grow. Today, this nation provides affordable housing for only one-fourth of those who need it. As a country, we are not building enough affordable housing to keep up with the huge demand. At the same time, the stock of existing affordable rental housing is diminishing through neglect, deterioration and, most importantly, the pending expiration of federal subsidies. Many experts have recognized this problem, including the National Housing Conference[1], which is calling for the creation of a bold program to maintain affordable housing production stock.

Beginning in the 1970s, the federal government entered into contracts with private owners to develop affordable housing projects in return for a long term (25–30 year) commitment from the government to provide monthly rent subsidies for the tenants. The "Section 8" program, administered by the Department of Housing and Urban Development (HUD) is the primary vehicle for these subsidy dollars. Throughout the nation, a large percentage of these government rent subsidy contracts are expiring without the expectation of renewal. The U.S. department of agriculture's "Section 515" program has also built affordable rental housing in rural areas. And although these subsidies are not expiring, some owners are interested in selling their properties to local nonprofits.

Over the next three years, the largest transfer of affordable real estate assets in history will take place, exposing upwards of 800,000 affordable units, now administered and subsidized by HUD, to market-rate conversion. The problem is particularly acute in California where the largest number of properties is at risk. Unless a large-scale intervention takes place, these precious resources will be lost, as owners divest and profit-driven investors move in.

The National Housing Development Corporation (NHDC) has been created to respond to this need. It is the first national intermediary of this type to emerge from the west coast, growing out of an award-winning housing pres-

1 *The National Housing Conference (NHC) is a Washington, D.C.-based coalition of nationally known affordable housing and housing finance experts from the public, private and nonprofit sectors.*

ervation program operated by the nonprofit Southern California Housing Development Corporation (SoCal Housing).

NHDC's mission is to improve the quality of life for lower income families through acquisition and preservation of our nation's affordable housing stock. It will partner with other not for profit preservation efforts, competing aggressively with the private sector to purchase large portfolios of these properties, restructure them financially, and sell them at cost to local nonprofits. Under nonprofit ownership, affordability can be maintained in perpetuity. NHDC's goal is to help preserve a significant portion of the nation's "at risk" properties, with an initial goal of acquiring 60,000 units in three years.

Congress has recognized the need and endorsed the NHDC model earmarking $2 million in the 1999–2000 budget for NHDC's initial seed capital. In addition, a national foundation has approved a seed grant for the first two years of operation.

NHDC's United National Preservation Trust

NHDC's program, the United National Preservation Trust, will negotiate directly with portfolio owners for properties anywhere in the country. As illustrated in diagram 1, the trust will serve as a large-scale acquisition/warehouse agent that will purchase larger portfolios of "at risk" affordable housing properties, concentrating on those which are beyond the reach of local nonprofits, either for financial or geographic reasons. NHDC will then reposition and stabilize the properties and finally disaggregate and sell off individual properties at cost to qualified local nonprofit organizations.

NHDC's holding period (estimated between 12 to 36 months) will enable the local nonprofits to assemble the necessary resources (i.e. tax credits, HOME funds, and local subsidies) to purchase the properties and prepare to assume property management functions. Management fees may also contribute to the sustainability of local nonprofit operations, providing additional capital to address other community needs. NHDC will retain a limited asset management oversight role to correct any future problems that might arise.

> *"Over the next three years, the largest transfer of affordable real estate assets in history will take place, exposing upwards of 800,000 affordable units to market rate conversion."*

NHDC has developed its program based on the concept of "harmonious differentiation" whereby NHDC will work with and complement housing, community development and preservation efforts of other national intermediaries. Initial relationships are being negotiated with the National Council of La Raza and the Congress of National Black Churches, whose affiliate organizations are potential purchasers of NHDC's properties.

Properties acquired by NHDC will also be available for purchase by qualified nonprofit affiliates of the Neighborhood Reinvestment Corporation, Local Initiatives Support Corporation, the Enterprise Foundation, National Association of Housing Partnerships, National Affordable Housing Preservation Associates and others. Finally, NHDC will also work closely with the National Council of State Housing Agencies (NCSHA) and its members at the state level who can assist in identifying potential at-risk properties and may also provide property financing.

NHDC's Target Markets

In addition to the large number of existing low-income rental housing units which are immediately "at risk" of loss as a result of market-rate conversion, other preservation targets for NHDC will include older subsidy-dependent properties, conventional affordable apartments owned by REITS, Low Income Housing Tax Credit properties reaching lock-in expiration, and very large-scale neighborhood revitalization projects that are beyond the reach of local nonprofit capacity.

Due to the location of the majority of the expiring Section 8 properties, NHDC has targeted the Mid-Atlantic region, the Midwest and the West Coast as areas of initial focus.

NHDC's Acquisition and Financing Plan

NHDC will focus on properties which can be underwritten, purchased and preserved under a "renewed affordability" paradigm in which a combination of a reasonable acquisition price and value added through financial and operational restructuring, below-market financing, tax credits, local subsidies and nonprofit ownership can achieve permanent affordability independent of future federal subsidies.

Now that the initial seed capital is in place, NHDC staff is actively working to identify and purchase its first at-risk portfolios. Timing is of the essence since the majority of the at-risk Section 8 projects will face subsidy expiration in the next three years. If these properties are lost to conventional buyers and converted to market rate housing, the cost of replacing this inventory will be prohibitive.

Opportunities exist for banks and other financial institutions to invest seed capital to support NHDC's initial activities in their market areas, as well as acquisition and permanent financing for NHDC properties, eventually assumable by the ultimate owner/manager, the local nonprofits.

Once up and running, NHDC will earn income from transaction fees, special preservation funds (Intermediary Technical Assistance Grants, or ITAGs), cash flows from acquired properties, transfer fees to local nonprofits (based on a limited cost-reimbursement formula) and asset management fees. NHDC's projections indicate that it will achieve self-sufficiency in four years, based on an aggressive acquisition strategy.

To reach self-sufficiency, NHDC's financial projections show a need for $5 million in seed capital—of which $2 million has now been provided by Congress. NHDC is in the process of raising the remaining seed capital from financial institutions, foundations, corporations and future congressional appropriations.

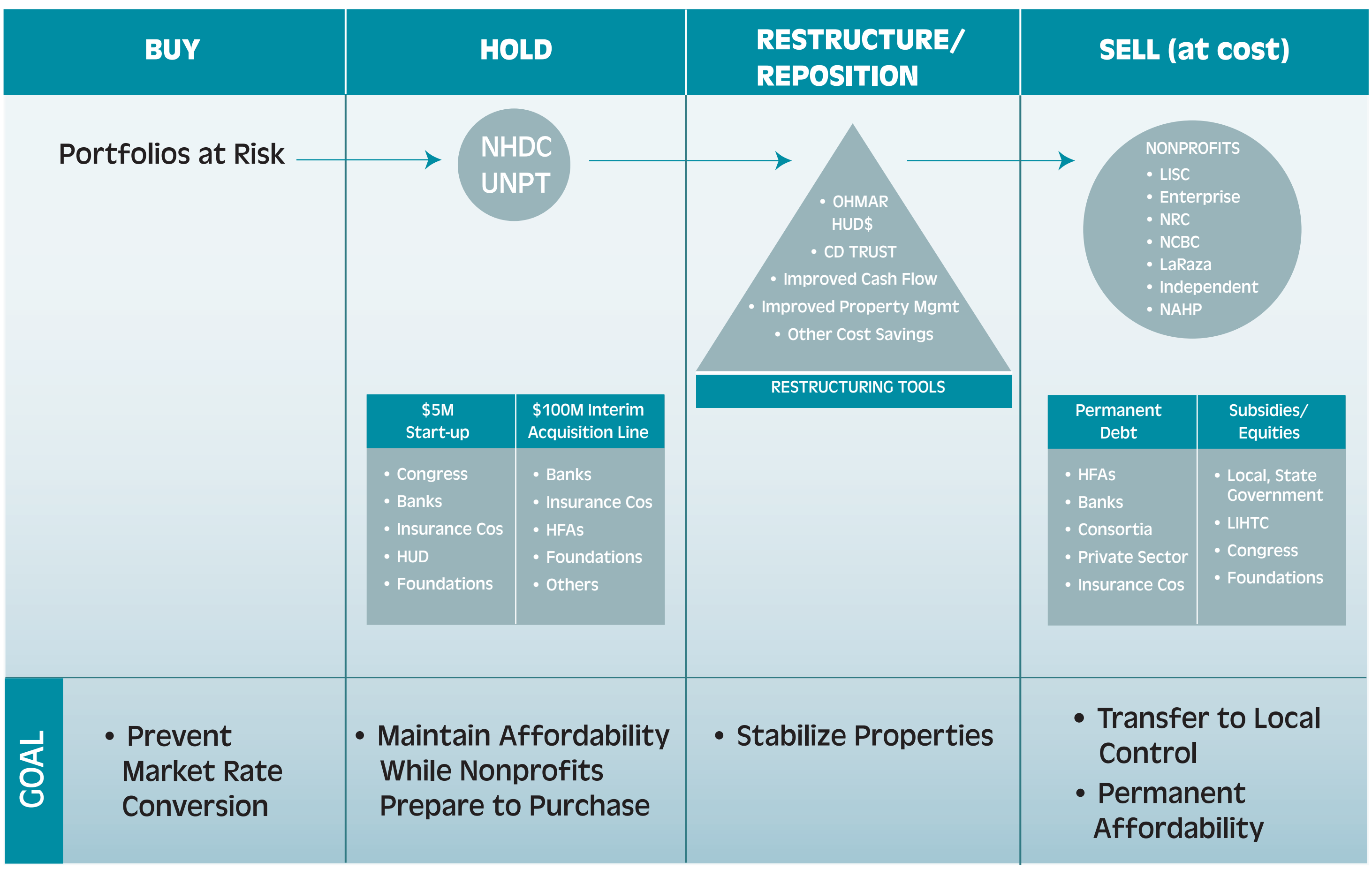
> *"The ultimate goal of NHDC's efforts is to help local communities attain greater control over one of their most precious assets—the housing stock that shelters lower income families and seniors."*

A CRA Investment Opportunity

NHDC is developing an investment fund whereby participating financial institutions should receive CRA investment credit via acquisition (and subsequent disposition) of existing affordable housing at risk of market conversion. Acquisitions will be structured via a risk-shared equity pool LLC in which NHDC will be the managing member and participating financial institutions will be the equity investors and members. Investments are targeted for $5 million increments, although smaller investments will be considered. The investment will have a projected holding period of three years and a maximum of six years, with a projected return of 5–8%, plus return of capital. The fund will make every effort to target its acquisitions to match the investors' service areas, broadly defined as states and regions where investors do business. However for NHDC to have the flexibility to respond to areas of greatest need, 25% of the funds will be reserved for use in any location.

(continued on page 7)

NHDC PROCESS
(Diagram 1)



Additional Affordable Housing Preservation Contacts

LISC's Community Development Trust, Inc.

The Community Development Trust (CDT) is a for-profit real estate investment trust (REIT) created in 1998 by the Local Initiatives Support Corporation (LISC), a national community development intermediary. CDT acquires long-term fixed-rate mortgages collateralized by affordable multifamily housing and other community development assets. CDT also invests equity in other community development projects that meet CRA requirements. As a REIT, CDT can offer current owners of affordable housing a tax-deferred exchange that benefits property owners who have exhausted their tax benefits. Initial capital of $31,750,000 was raised from 18 institutional investors including banks, insurance companies and one CDFI. For further information, contact Judd S. Levy, President and CEO, (212) 271-5099, **jlevy@commdevtrust.com**.

National Affordable Housing Preservation Associates

National Affordable Housing Preservation Associates (NAHPA) is a national nonprofit organized to promote the preservation of affordable multifamily housing in rural areas and small towns. NAHPA is currently completing acquisitions in Illinois and Vermont with a goal of acquiring 3,000 units over the next three years. USDA Rural Housing has affirmed a financing model for preservation of properties to attract the participation of private lenders. NAHPA is now looking to build an organization and to establish partnerships with local and regional nonprofit organizations and housing authorities interested in acquiring and/or managing multifamily properties in rural areas. For further information contact Muriel Watkins, Executive Director, (202) 467-8544, **murielwatkins@hotmail.com**.

National Association of Housing Partnerships' Housing Partnership Development Fund

The National Association of Housing Partnerships (NAHP) is comprised of 60 regional nonprofit housing organizations in 32 states. NAHP's new affiliate, the nonprofit Housing Partnership Development Fund, will provide a loan facility for use by NAHP members, primarily for purchase of portfolios of HUD-assisted properties. The Fund will offer technical assistance with the financing that is needed for predevelopment costs. The Fund has received CDFI designation, so that bank investors can receive CRA credit and cash awards. $1 million in investment has been raised to date toward a goal of $3 million. For further information contact Kathy Farrell, (617) 720-1999 ext. 204, **farrell@nahp.net**.

Neighborhood Capital Corporation (NCC)

The Neighborhood Capital Corporation (NCC) was formed in January 2000, by members of the Multifamily Housing Initiative of Neighborhood Reinvestment Corporation. The NCC membership, comprised of the multifamily organizations in the NeighborWorks Network, owns and operates 15,000 units of multifamily housing. NCC's primary function will be aggregating capital for the timely acquisition of affordable multifamily housing for its member organizations. NCC members plan to increase their combined portfolio by 10,000 units by the end of 2003. NCC intends to work with other organizations, including National Housing Development Corporation, National Housing/Trust Enterprise Preservation Corporation and National Association of Housing Partnerships. The NCC board has commenced the executive search process. For further information, contact Bill Sullivan, Rocky Mountain Mutual Housing Association, Inc. 1550 Park Avenue, Denver, CO 80218, (303) 863-8651, ext. 211, **sullivanb@rmmha.com**.

NHT Enterprise Preservation Corporation

National Housing Trust (NHT) is a nonprofit intermediary located in Washington, D.C. The Trust was founded in 1986 and is dedicated to the preservation of existing multifamily affordable housing. In 1999, the Trust and the Enterprise Foundation launched the NHT Enterprise Preservation Corporation, which will purchase real estate from owners of multifamily housing, primarily targeting markets where there is insufficient local nonprofit capacity or interest to efficiently complete a transaction**.** This new nonprofit entity plans to acquire 5,000 apartments over the next five years. In general, NHT/Enterprise plans to focus its activities in the Mid-Atlantic, South and Midwest. For further information contact Scott Kline, Vice President for Acquisitions, (202) 333-8931, **skline@nhtinc.org**. Or visit NHT's website at **www.nhtinc.org**.

As soon as properties are repositioned, stabilized, and the qualified local nonprofit is in place, NHDC will sell or transfer the property to the qualified local nonprofit. At that time, the investors' equity capital will be repaid. As an alternative, and at each individual investor's discretion, equity capital returned can be recycled back as a new capital contribution to acquire future properties on the same basis. If there is no otherwise viable affordability-oriented transaction, as a last resort the property can be sold at market value.

NHDC Personnel

While NHDC is a new national intermediary, NHDC staff has a long and impressive history in affordable housing preservation. Jeff Burum, NHDC's executive director, was the founder and driving force behind Southern California Housing Development Corporation (SoCal Housing), a large and very successful regional nonprofit which focuses on preservation of affordable rental housing in Southern California. Under Burum's seven-year leadership, SoCal Housing preserved over 3000 units of affordable housing with an asset value exceeding $130 million. Other key staff members from SoCal Housing are also involved with NHDC. Sebastian Sterpa, former chairman of the California Housing Finance Agency, will serve as the initial chairman of the board of directors. Other members of NHDC's board are being recruited and include key national leaders in the nonprofit, philanthropic, private and public sectors.

In addition, NHDC has assembled a team of outside experts to assist with acquisitions, organizational planning and development, and public finance. Team members include Rick Johnston, managing director, of public finance for US Bank/Piper Jaffray, Kathy Kenny and John Trauth, the authors of this article and David Smith, founder and president of Recapitalization Advisors, one of the nation's leading specialists in the HUD inventory.

The ultimate goal of NHDC's efforts is to help local communities attain greater control over one of their most precious assets—the housing stock that shelters lower income families and seniors. Without a doubt, preserving this housing stock is a huge undertaking, one that in order to be successful, will require coordination, cooperation, considerable expertise and strong financial support.

Through its working relationships with other preservation oriented agencies and through its board of directors, NHDC is positioned to make a major difference in the preservation of our nation's affordable housing stock. NHDC's success will directly translate into a win for the most vulnerable constituent, this nation's low-income families and seniors. ***CI***

For additional information on NHDC, contact National Housing Development Corporation, 8265 Aspen Street, Rancho Cucamonga, CA 91730; (909) 291-1400 or jburum@nhdc.org. *Or visit NHDC's website at* www.nhdc.org.

About the Authors

Kathy Kenny and John Trauth are organizational planning and development consultants, specializing in the startup of large-scale initiatives in affordable housing and community development. They are currently assisting the National Housing Development Corporation through its startup phase. John Trauth was also instrumental in the creation of BRIDGE Housing Corporation and Southern California Housing Development Corporation, two highly successful regional nonprofit housing developers. Kathy Kenny has also served as a planning consultant to the Council on Foundations, the League of California Community Foundations, the National Economic Development and Law Center, and the Federal Reserve Bank of San Francisco.

Equity Capital Creates Rural JOBS

Cascadia's rural development fund brings investment into rural communities

By David Kleiber, Loan Officer, Cascadia

As we enter a new millennium, the nation continues to ride the wave of economic growth that brought the twentieth century to a close. But while national unemployment levels are undeniably low, many hard-working Americans still lack jobs that pay enough to support a family. The national economic boom has been unprecedented in length, but its effects have not spread out evenly across all our communities. Many local economies have actually experienced a decline in jobs and median incomes.

Rural communities, particularly in the Pacific Northwest, have generally not enjoyed the same levels of prosperity as urban and suburban centers. In Washington state, rural poverty and unemployment persist, despite unprecedented economic growth in the Puget Sound region. A 1998 study by the Corporation for Enterprise Development found the state of Washington to have the second highest urban/rural income disparity in the nation.

The situation is similar in rural communities throughout the country. Rural areas simply do not have enough well-paying jobs to go around. In Washington and Oregon, rural communities have historically been dependent on primary resource extraction industries: agriculture, forest products and fishing. All three industries are in precipitous decline. Many family farms have succumbed to the falling prices in foreign export markets that have resulted from the globalization of commodity food markets. Remaining farmers have been pummeled by several recent years of unusually harsh weather conditions that have greatly diminished harvest volumes.

Communities dependent on the timber and fishing industries have also been hard-hit—facing restrictive environmental regulations and dwindling resources. The decline in the volume of timber harvested from national forest lands has resulted in the closure of dozens of sawmills in the rural Northwest—mills that historically offered the best paying jobs in town. The recent closure of the coastal ground fishery, coupled with the listing of local salmon runs as endangered, has all but eliminated the once viable regional fishing industry.

Many Northwest rural communities have tried to compensate for this rapid and continuing job loss by developing alternative sources of revenue and job growth. Some have successfully transitioned to a tourism-based economy. While this strategy may keep a community alive, it doesn't provide the same level of economic prosperity. Tourism and service industry jobs do not compare in terms of wages and benefits to the manufacturing jobs that were lost.

The Challenges of Job Creation

Rural communities face several obstacles in the struggle to maintain a viable economic base and create quality family-wage jobs. In the rural Pacific Northwest, most communities lack the technical infrastructure to attract the computer, information processing and biotechnology industries that have been the primary drivers of the incredible urban economic dynamism in the region. While technology-based businesses might be attracted to the quality of life in rural areas, rural communities cannot offer the high speed, wide bandwidth telecommunication services on which many high-tech businesses depend.

Instead, rural residents must find ways to create jobs from within. This entails conceiving of new ways to add value to the limited resources still on hand. In areas dependent on the fishing and timber industries, this means creating value-added timber and fish products to ensure that profits derived from the processing of these raw materials will stay in the community. Instead of shipping logs overseas, for example, rural manufacturers must use the logs to create marketable finished products that will double, triple or even quadruple the revenue earned from each tree.

Creating an essentially new manufacturing base in a poor community can be quite a challenge. Entrepreneurs traditionally rely on family, friends and business partners to provide startup and working capital for their businesses. This isn't always possible for business owners in rural communities, where local wealth has been stretched thin by poverty and unemployment resulting from the demise of the local primary manufacturers.

In Washington, a number of state agencies and private nonprofit organizations, including Seattle based Cascadia Revolving Fund, offer loans to small rural businesses that cannot secure bank financing for all of their needs. But, like a bank, most of these sources of capital require collateral as a secondary source of repayment in case of default. Cascadia's experience in working with rural businesses has demonstrated that entrepreneurs in economically distressed communities frequently need unsecured risk capital.

> *". . . rural poverty and unemployment persist, despite unprecedented economic growth . . ."*

On a balance sheet, risk capital most frequently takes the form of owner's equity—or the money the business principals invest as permanent capital in exchange for stock in, or ownership of, the business. These funds are generally used to build an asset base that is then borrowed against through a bank or other lender to provide the company with more capital. Without sufficient equity, a business will have difficulty borrowing additional capital from a bank.

Developing the Instrument

Cascadia spent four years testing the feasibility of creating a fund for making equity investments in rural northwest businesses resulting in the *Rural Development Investment Fund* (RDIF). During this initial pilot phase, the RDIF was capitalized by foundation grants and program-related investments as well as grants from state and federal agencies involved in rural economic development.

Cascadia originally thought to model the RDIF on the venture capital industry, in which professionally managed funds purchase a percentage of the ownership of young companies that have the potential to dramatically increase in value. The key to this model is the exit strategy. Venture funds anticipate that their ownership interests (stock) will become liquid (sold and converted back into cash) when these new companies successfully offer their shares for sale to the public. The ability to make an initial public offering (IPO) depends on the company's management team and technology, and the team's ability to apply that technology to meet the needs of a large market.

The more Cascadia studied this type of investment strategy, the clearer it became that this model would not work well for the rural economies of the Northwest. While many companies would welcome the access to patient venture capital, the exit strategy for Cascadia was not clear. Most existing businesses in these communities are simply not likely IPO candidates. Given this reality, Cascadia structured a financial instrument that balances the company's need for equity-like capital with Cascadia's need for a relatively straightforward exit. The resulting product is called a Participation Agreement (PA)—a deeply subordinated, long-term, low-interest loan, coupled with a revenue-based fee called a Participation Payment. The loan is amortized over an extended period at a low rate, resulting in very reasonable monthly loan payments. The company may choose to accrue a designated number of Participation Payments, thereby deferring the impact on the business' cash flow until the proceeds of the loan have been invested and the company's sales, profitability and cash flow have improved. Given the characteristics of the target market for the RDIF, there are several advantages to this product over a standard equity investment:

- the touchy issues surrounding the purchase of a piece of an entrepreneur's company, and the valuation of that company, are avoided;
- the PA provides a source of current cash flow to cover operating costs for Cascadia—a very important consideration for a relatively small fund;

- investment recovery is not dependent on a "liquidity event" such as an IPO, but is instead amortized like an ordinary loan;

- like true equity, the entrepreneur pays a higher rate of return only if the business is growing and successful—if not, their cost of funds is lower;

- though not as patient as true equity, the entrepreneur can delay the impact on business cash flow by accruing a certain number of Participation Payments;

- traditional lenders view the PA debt as equity, thereby allowing the "investment" to leverage additional debt;

- the basic debt structure of the PA provides greater loss protection to the RDIF than common or preferred stock investments;

- the simplicity of structuring and closing the deal minimizes legal fees on both sides and

- reductions in the revenue-based fee over time can be tied to progressive work force compensation programs, employee benefit improvements, positive environmental actions or other community/ social goals.

The key to the long-term success of any high-risk investment fund is to earn sufficient income on successful investments to compensate for the inevitable losses sustained on those that fail. Due to the subordinated collateral position of investments made by Cascadia's RDIF, most losses we ex-

Investee Profile: Eddyline Kayaks

Tom and Lisa Derrer started Eddyline Kayaks in their garage 29 years ago. The company is now one of the top sea kayak manufacturers in the industry, developing and producing several quality kayak models and a line of paddles. In addition to Eddyline's Burlington, Washington production facility, the company operates a retail outlet offering instruction, rentals and touring.

Product designer Tom Derrer is a true innovator in the sea kayak industry. He was among the first to develop a mid-priced kayak that offers the features and performance of a more expensive fiberglass boat. Eddyline's new kayaks, made from an innovative composite material, filled a long-vacant niche in the sea kayak market.

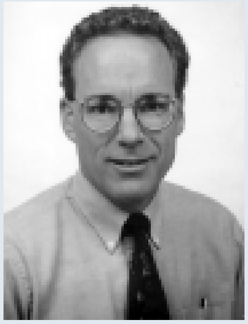
Despite its quality product, Eddyline couldn't obtain a loan to produce the new boats. Research and development costs had been high, and the company had incurred significant losses. Cascadia was able to offer Eddyline a subordinated loan through its Rural Development Investment Fund. The RDIF's $100,000 loan enabled the company to purchase equipment to produce the new kayaks, and add five employees to an existing staff of twenty—a boon in rural Skagit County, which has historically been dependant on the timber industry for jobs.

perience will be complete losses (i.e. there will likely be insufficient value in the collateral of a client company at liquidation to fully pay all senior creditors). For this reason, the RDIF targets a rate of return of 18–22% from successful investments—considerably higher than that of a typical loan. Equity capital is never cheap. First, investors demand a rate of return that compensates them for the assumed risks. Also, high rates of return are the only way (short of raising additional capital) to maintain the capital base of the fund. Compared to the current target rates of return for traditional venture capital (40–60% internal rate of return in three years), Cascadia's Rural Development Investment Fund is comparatively inexpensive.

The RDIF is distinguishable from traditional venture funds in other important ways as well. Most venture funds are structured as limited partnerships with a predetermined life—investors are typically promised a return on their money in seven to ten years. As a nonprofit organization, Cascadia has the advantage of being able to continually reinvest recovered capital in new businesses to make the RDIF an "evergreen" resource for economic development in the northwest. The PA instrument also has the advantage of generating current income so that the fund does not have to rely on philanthropic dollars to cover operating costs. This enhances the RDIF's future as a self-sustaining financial resource.

In its relatively short life span, the RDIF has achieved a significant impact on job creation in the rural Pacific Northwest. Typical "investees" include a manufacturer of specialty wood products employing 46 people, a manufacturer of wall panels supporting more than 20 employees, and a manufacturer of log and timberframe buildings that provides ten jobs.

While the Rural Development Investment Fund does not offer true equity investments that a traditional venture capitalist would recognize, its Participation Agreements meet a very real need in the rural finance market. Currently in its fifth year of operation, the RDIF has proven to be an effective catalyst for job creation, and a useful instrument for filling the niche that venture capital firms occupy in the mainstream urban financial marketplace. *CI*



About the Author

David Kleiber joined Cascadia as a loan officer in 1993, and became associate director one year later. Prior to joining Cascadia, Mr. Kleiber was an assistant vice president and loan officer for Rainier National Bank's Forest Products Corporate Banking Group. Following this, he worked for a consulting company placing pension fund investments into timberland and then for a small independent Northwest sawmill as export sales manager. Dave then left for Nepal and three years of service in the Peace Corps as a forestry consultant, which was followed by contract work there with the World Bank and the United Nations Development Program. He returned and began work at Cascadia where he initiated the formation of the Rural Development Investment Fund, a quasi-equity investment arm of Cascadia that focuses on assisting rural manufacturers with the potential to create family wage jobs. Mr. Kleiber earned a master of business administration in marketing from the University of Washington and a bachelor of science in forestry from Michigan State University.

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Lisa C. Bell, Senior Vice President/
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"The Leadership Councils are a new initiative for the Fed that will serve many functions. Most importantly, the Councils will give local CRA professionals a vehicle for collaborating on local community and economic development issues. We believe that these groups can accomplish more by working together than any one individual or institution can accomplish on its own."…
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Home Federal Savings (Nampa)

Cindy Williams, Vice President/Community Development Manager
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Nevada

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Doreen Davis-Peterson, Vice President Community Development
U.S. Bank Of Nevada (Reno)

Lois Greene, Senior Vice President
Bankwest Of Nevada (Las Vegas)

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Stephen Linder, CRA/Community Relations Manager
Household Bank (Las Vegas)

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Sovereign Lending: Bringing Housing to Indian Country

By Craig Nolte, Community Investment Advisor,
Federal Reserve Bank of San Francisco

The statistics are chilling. Nearly half of all homes located in Indian country are overcrowded and have serious physical deficiencies and almost a fifth lack complete plumbing. In addition, over 30,000 individuals and families are on waiting lists for rental housing. It is estimated that over 200,000 housing units are needed immediately to provide adequate housing in Indian country.

While it is difficult to generalize the demographic, economic and social characteristics of the country's more than 550 federally recognized tribes, it can certainly be concluded that housing remains elusive, if not unattainable. A lack of access to capital has prevented many tribes from being able to even dream about homeownership, making the original Americans, *the first nations*, the last people to own a home.

Compounding the housing crises are other alarming statistics. The poverty rate on Indian reservations is about 31% compared to the 19% national average according to 1990 U.S. Census estimates, and nearly half of the available workforce is unemployed. Without jobs, home loan programs are useless. Without housing opportunities, savings incentives and overall capital formation are also stifled.

Lack of homeownership has created a negative ripple effect in reservation economies, which extend well beyond housing. For instance, nearly a third of all home-equity lines of credit in the U.S. are taken out for business purposes. Without home ownership, many people living on reservations don't have access to an affordable source of capital.

Even those fortunate enough to own real estate struggle to sell or refinance their properties in weak real estate markets on tribal lands. The complexities of the real estate market are compounded by a lack of competing mortgage lenders. Sadly, only a scant number of lenders offer the HUD 184 loan guarantee program, and many tribes have not adopted the HUD rules to allow their members access to the program. In the Pacific Northwest states of Washington, Oregon and Idaho, only 15 lenders offer these loan products, despite a 100% guarantee provision.

Without access to the traditional mortgage market, those who seek homeownership may end up with high loan interest rates and fees, normally much higher than those from a traditional mortgage lender, resulting in a disincentive to purchase a home on the reservation. Therefore, while the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) was designed to produce locally-valued outcomes and address the needs of low-income Native American populations, lack of access to capital stymies efforts to leverage NAHASDA funds for greater impact.

Sovereign Lending Initiative

Recognizing the dynamic correlation between access to credit, homeownership and net worth, the Federal Reserve Bank of San Francisco (FRBSF) embarked on an initiative in 1998 to increase access to credit in Indian Country. The initiative started with seven *Sovereign Lending* workshops to invite the greater tribal and banking community to share their views on the barriers and solutions to lending in Indian Country. *Sovereign Lending* task forces were formed out of these workshops to strategize and develop solutions. The task forces, which include representatives from different tribes, financial institutions, government agencies and community-based organizations, have held meetings at over 50 Indian reservations throughout the states of Washington, Oregon, Idaho and Utah. At these meetings, participants learn about each tribe's economic development plans, identify needed banking products and services, and collaborate on joint projects.

The task forces identified five primary barriers to lending in Indian Country, each of which has a significant impact on housing affordability and finance: (1) tribal lending laws; (2) remoteness; (3) land status; (4) communication; and, (5) borrower characteristics. This article explains each barrier and possible solutions, plus elaborates on what task force members are doing to resolve these barriers. And while some of these barriers share similarities to other LMI communities, the combination of them all is specific to most reservations.

Tribal Lending Laws

Many Indian tribes do not have laws that provide guidance to lenders on how to conduct business on reservations. A lack of guidelines on reservations, such as procedures for evictions and foreclosures presents an unknown situation for lenders, which is seen as a risk. To resolve this barrier, a number of tribes on the task force have used their sovereignty to adopt laws to promote both real estate and commercial lending. Some have posted their laws on their web sites for easy access by lenders and title companies. The Oregon task force sponsored a tribal attorney symposium on tribal law resources with presentations by Fannie Mae, HUD and local law firms. The task force symposium and meetings have been most successful as a catalyst for ongoing meetings and customized solutions. A good illustration of this is when one lender's attorney met separately with the Shoshone-Bannock tribal attorney to review their tribe's laws and suggest recommendations for changes. This single meeting resulted in two large loans to the tribe.

Remoteness

The remote location of many Indian reservations presents challenges for lenders in delivering banking products and services in a practical and cost-efficient manner. In general, branch offices require a volume of both deposits and loans substantial enough to justify their existence—more than would likely be possible on many Indian reservations. This prerequisite has prompted lenders and tribes to consider alternative delivery systems. As the largest employer on many reservations, several tribes now offer direct deposit service for their employees. This allows employees to begin accruing interest on their funds immediately, as well as access cash from ATMs or via point-of-sale service at local stores without leaving the reservation. ATMs may be located near the local post offices, medical facilities or tribal offices, where both access and security may be available up to 24 hours. In one case, Nevada Bank & Trust is in the process of establishing a full-service branch on the Duck Valley Reservation that would share space with a tribal micro-lending organization, saving tribal members an 80-mile drive to the nearest bank branch.

Land Status

The issue of land ownership on many Indian reservations is complex, but not as daunting as some see it. While many reservations are made up of a mixture of fee simple, tribal trust and allotted land, there are lending products for all of these ownership structures. HUD's 184 loan guarantee program is designed to be used on trust land, while a bank's conventional lending products can work on fee simple land. Five task force lenders decided to offer the HUD 184 to help fulfill this need. In addition, several lenders have been working on special housing programs with individual tribes, and one task force is exploring how to improve access to state housing programs.

Communication

Bridging the limited opportunities for communication between many tribes and the finance community, which is the cornerstone of problem solving, is a primary goal of the task forces. The task force meetings host different speakers on available financing resources and help to build stronger relationships between tribes and other task force members. In one meeting, two tribes decided to collaborate and allow one of the tribes to open a credit union office on the other tribe's reservation. Several of the task forces have developed directories of bank and tribal personnel to contact on financing matters. Another task force established a loan referral center within an urban Indian walk-in medical clinic. In addition, the task force meetings continue to attract participation from community-based organizations that have not traditionally provided affordable housing technical assistance to tribes given the many housing-related barriers.

Borrower Characteristics

Widespread unemployment, non-traditional forms of income, lack of assets and low education levels all contribute to a challenging lending environment in Indian country. To help address these issues, task force members launched financial literacy programs by partnering with several organizations including the State of Washington's Junior Achievement program, the Oregon Bankers Association's *Personal Economics Program* and the Idaho Financial Literacy Council, to offer their "bank-at-school" programs in tribal schools. In addition, banks began accepting alternative forms of income verification such as "fish tickets" and held first-time homebuyer seminars. Finally, two task forces are encouraging their respective state legislatures to adopt legislation to allow residents access to Individual Development Accounts (IDAs), a savings account designed to help people save for their first home, education or to start a new business.

Conclusion

The lack of access to capital on Indian reservations has caused an overcrowding of existing households, an exodus of potential homeowners and a ripple effect on the tribal and neighboring economies. Statistics or even words cannot truly describe the immense personal hardship on generations of Native Americans as they wait for the opportunity to become homeowners.

We can make housing happen in Indian Country. Although the *Sovereign Lending* task forces have helped speed resolution of lending barriers on tribal lands, there is no better substitute than prompt action by financial institutions, tribes and others roused by the chilling statistics and motivated by the many opportunities to take action. ***CI***

A Checklist for Reservation Lending

- Give tribal members options for home financing such as both government-insured products and conventional products.
- Research the type of affordable housing organizations available off the reservation and encourage them to work with tribal members.
- Explore alternative retail delivery systems for banking services when branch offices are not feasible.
- Arrange a meeting between the tribal and bank attorneys to review and suggest changes where appropriate in the tribe's laws.
- Poll tribal members on needed banking products and services, and arrange a meeting between the bank CRA officer and an appropriate tribal representative to review the survey results.
- Consider developing a task force similar to the northwest task forces for area tribes in other geographies.
- Offer financial literacy programs for K–12 tribal children, and first time homebuyer and personal financial management seminars for other tribal members.
- Ensure that HUD's 184 Loan Guarantee Program is readily available and that all tribal members have access.

About the Author

Craig Nolte is a Community Affairs Advisor with the Federal Reserve Bank of San Francisco. As part of the Community Affairs department, Mr. Nolte develops training and consults with financial institutions on community investment opportunities. Mr. Nolte is very active in Native American lending issues on both local and national levels. Currently he facilitates seven "Sovereign Lending" task forces in the four northwestern states of Washington, Oregon, Idaho and Utah.

Prior to joining the Federal Reserve, Mr. Nolte served as a Compliance Examiner with the Office of Thrift Supervision. In that role, Mr. Nolte evaluated thrift institutions' compliance with various consumer and compliance laws and regulations, including the Community Reinvestment Act. Mr. Nolte holds a master of business administration. from City University in Seattle, and a bachelor of arts degree in finance from Seattle Pacific University.

AFFORDABLE MULTIFAMILY MORTGAGE RISK

One Lending Consortium's 10-Year History

By Mary Kaiser, President, California Community Reinvestment Corporation, and George H. Vine, Principal, Vine & Associates

Ten years ago a group of California-based commercial banks created the California Community Reinvestment Corporation (CCRC) as a means of sharing "risky" long term affordable multifamily housing mortgages. The Federal government had just created the Low Income Housing Tax Credit program and mortgages for the program were hard to find.

CCRC staff and loan committee developed expertise in underwriting tax credit projects and helped to pioneer lending that is now offered by many commercial banks. A recent analysis of CCRC's loan portfolio provided the opportunity to assess how well these pioneers in affordable housing finance managed risk. As part of an annual review of loan loss reserve adequacy, we totaled CCRC's historical loan losses since our inception 10 years ago, and divided the sum by total loans funded during that time. In the last 10 years CCRC has originated nearly $200,000,000 in mortgages secured by projects containing over 7,500 affordable housing units.

To our surprise, we found that CCRC's loan losses since inception amounted to only 0.34% of all loans originated. This is a loss history more in keeping with a good portfolio of investment grade bonds than a high-risk pool of low-income, multifamily housing mortgages. Chief credit officers at most of CCRC's member banks would die for such a loss history. Some additional portfolio statistics follow.

CCRC's current (as of May 1999) portfolio consists of 79 loans totaling $152,000,000. Most of CCRC's loans are between $250,000 and $3,000,000 in size and the average loan size is $1,900,000. The portfolio is well diversified with respect to borrower and geographic concentrations (given that all mortgages are secured by California projects). Eighty-two percent of the portfolio is secured by Low Income Housing Tax Credit (LIHTC) projects. Most CCRC borrowers include non-profit corporations in some capacity ranging from the minimum participation required to qualify for the property tax welfare exemption to 100% ownership. The weighted average loan-to-value ratio is 74% and the weighted average debt service coverage ratio is 1.16. Classified (i.e. troubled) loans amount to less than 2% of the portfolio. None of the portfolio's loans are delinquent and historically delinquencies are rare.

Both authors became involved with CCRC within the past four years, and both came to CCRC from extensive careers in (non-community development) commercial banking. Even after four years the exceptionally low loan losses are a surprise. We attribute CCRC's exemplary loan loss experience to the following five factors:

1. CCRC's Loan Committee

The loan committee meets once a month and includes senior credit and community development officers from each of the five "major bank" members (Bank of America, Wells Fargo, Union, Sanwa and City National) and from three of the remaining bank members (currently Comerica, Union Safe and Deposit and Bank of the West). They give their time generously to review extensive loan committee packets and they take their jobs seriously, as their approval of a loan commits CCRC's bank membership to fund. The committee's focus is first on the basics of credit, then on "how do we do the deal." Loan committee discussions can become spirited providing a creative tension that frequently leads to innovative solutions. Rarely, if ever —never in our recollection—does the committee decline CCRC staff loan submissions.

2. Extensive loan review process

CCRC prepares a comprehensive annual review of every loan based on financial information provided by borrowers. Additionally it inspects all properties at least annually. Loan review findings are scored to a single "risk rating" given to each loan. These risk ratings become the basis for assigning loss reserves and determining the frequency and intensity of each loan's monitoring. The results of these reviews are presented to the loan committee, which must confirm or reject CCRC staff-assigned risk ratings. As the portfolio gets larger it becomes more difficult to maintain this intensive review discipline, but the benefits of an intimate knowledge of the portfolio, including early warnings of problems and up-to-date market data are worth the effort. The handful of borrowers who inadvertently neglect or—notwithstanding promises made in loan documents—refuse to provide updated financial information impede this monitoring, but most cooperate fully.

The culmination of the portfolio review process is the annual credit review by a professional credit review team provided by one of the "major" bank members on a rotating basis. The team scrutinizes the portfolio using their employer's standards. Because they are often new to affordable multifamily housing mortgages, they keep CCRC staff on its toes by questioning basic assumptions and reviewing loan monitoring down to the smallest detail. CCRC typically emerges with a "satisfactory" portfolio rating—usually the highest rating given— with a few areas flagged for improvements, which are made the following year.

3. Aggressive problem asset management

CCRC is a firm believer in proactive problem asset management. When a loan review indicates problems, the loan is given a worse risk rating and the frequency of formal loan reviews may be increased to quarterly. Borrower contact is intensified. Problem borrowers sometimes fix their properties just to avoid CCRC's frequent, even daily, inquiries!

Signs of problems include: high vacancy rates, debt service coverage ratios below break-even, non-funding of replacement reserve accounts, deferred maintenance revealed by CCRC's property inspections, delinquent property taxes, and lack of response to CCRC's letters and telephone calls. When problems such as these develop, CCRC tries to work with the existing borrower to resolve the issue. Usually it is a temporary problem caused by a random fluctuation in occupancy, a change in property management firms or borrower staff turnover, and the property rapidly gets back on track. Even when problems turn out to be long-term, in nearly all cases CCRC's borrowers come up with the capacity and integrity to fulfill their obligations.

Very rarely, payments are not made, there is no prospect for improvement, and CCRC forecloses. Fortunately, CCRC has foreclosed on only two loans to date. Once CCRC takes title to the property the goal becomes a rapid sale of the property to a qualified purchaser at a fair price, under terms which will allow CCRC to account for the transaction as a sale. With both foreclosures, CCRC tried first offering the properties to nonprofits but was unsuccessful at finding one that could meet CCRC's foreclosure sale goal. In our opinion, the nonprofit housing provider that can perfect the art of acquiring foreclosed properties from financial institutions will have that mar-

109th Street before

109th Street after

This 6-unit property was purchased, completely renovated and permanently financed with a single fixed rate, 20% down loan that is due in 10 years under CCRC's Acquisition/Rehab lending program.

ket niche to itself in the next real estate downturn.

Even rarer than a foreclosure is when CCRC has such strong doubts about a borrower's management capacity that it decides to exit the relationship even though payments are not yet delinquent. In these cases CCRC will work with the borrower to get CCRC's loan refinanced elsewhere.

4. Prevalence of tax credit projects in CCRC's portfolio

Most projects financed by CCRC get their equity from large tax credit investors such as SunAmerica, Related Capital, and Edison International, who acquire Low Income Housing Tax Credits by purchasing limited partnership interests in the projects. An investment in a project is often several times CCRC's loan amount. During the 10-year tax credit period and the subsequent 5-year "compliance" period, these investors have a strong interest in keeping CCRC's loan current, since a foreclosure can result in the loss of tax credits as well as recapture penalties. Indeed, we recently projected the costs of the loss of tax credits and penalties for a typical project and found that a tax credit investor would be better off up through the 12th year of a project paying off CCRC's mortgage in full *at a total loss*, rather than allowing CCRC to foreclose on its loan. This is a powerful incentive to keep payments current. CCRC has a few loans secured by tax credit projects that continue to be kept current in the face of major project cash flow shortfalls.

Additional protection is provided by the reduced rents mandated by the program which are often 10% or more below rents offered by competing properties. Projects with rents this far below market are much more forgiving of poor marketing and management. As a last resort, a foreclosed property with below-market rents can be converted to a non-rent restricted property and the rents can be raised. Higher rents mean a higher property value, which provides an additional cushion to the mortgage lender.

One problem with tax credit projects occurs when local market rents drop to a level close to the restricted rents in a tax credit project within that market. In many cases such tax credit projects will not be able to achieve market rents. Rather, they must offer units at discounts below market (and below the project's restricted rents) to offset the continuing tenant income monitoring requirements and the projects' reputations as "low-income" properties.

The major issue with tax credit projects is what happens at the end of the 15-year compliance period—with 15 years of payments left on CCRC's mortgage. Most projects are still subject to rent restrictions for another 40 years. The tax credit investors no longer have an interest in supporting the projects, since the tax credits have been consumed and the penalties no longer apply. We won't know for sure until 2002, when the compliance periods on the earliest tax credit projects begin to expire, but we expect that the 15 years of amortization and inflation during the first half of CCRC's 30-year loan will protect the loan during the last half of its life. We predict that fifteen years of amortization will reduce CCRC's typical loan balance by 23% and fifteen years of inflation compounded at 2% annually *may* increase a project's value by 35%.

5. The strong California economy and the serious affordable housing shortage in California

Apartment vacancy rates in many of California's major markets are approaching 5% or below. Few if any markets in the state have vacancies in excess of 10%. California accounts for seven of the eight least affordable rental housing markets in the country. Job growth in the major California markets is creating housing demand growth well in excess of housing supply growth. These statistics are well documented so we won't delve into them here. Ironically, the housing shortage so harmful to CCRC's low-income constituents strengthens the credit quality of CCRC's loan portfolio.

We have learned several lessons as ex-commercial bankers from this alternative universe of affordable housing mortgage credit as follows:

1. Do not look for cash flow

CCRC's portfolio debt service coverage ratio (1.16) seems low to those accustomed to conventional seasoned multi-family loans. A subset of CCRC's loans was recently subjected to the scrutiny of a rating agency and several potential purchasers who anticipated debt service coverage ratios of 1.3 and above.

The explanation is simple—many of CCRC's projects carry "residual receipt" subordinate loans in favor of government agencies. Borrowers must repay these only if there is cash left over after paying expenses and debt service. Some of the loans are even forgiven if they are not repaid within their term. These "residual receipt" debts create a powerful incentive for borrowers to pay out all of a property's income in expenses, since any left over pays a bill that otherwise would not have to be paid. High property management fees are a favorite device for reducing reported cash flow as are "tenant services" expenses. Some projects show stable debt service coverage ratios from review period to review period, which remain at 1.0 (break-even cash flow) despite wildly varying vacancy rates and expense levels.

2. Carefully review your nonprofit sponsors

Nonprofit borrowers are more difficult to analyze than for-profit borrowers because the analyst cannot count on the profit motive to predict their behavior. Nonprofits are more likely to be highly dependent on a single dedicated individual or grant source. We know of several projects where the real estate is performing well, yet the project is in trouble because there is no one left with interest in managing the asset. Our experience has shown that nonprofits whose primary mission is providing affordable housing are better bets than those whose primary mission is providing other social services.

3. Get what you need before loan closing

CCRC frequently creates innovative loan structures to shore up loan applications that otherwise would not meet its underwriting standards. These structures often require third parties with the experience or financial strength the borrower lacks to maintain an involvement with the project. Others may conditionally require the borrower to take some action after the loan closes. However, we have found that many of these provisions are not enforceable under California law absent a monetary default.

An example is the promised funding of replacement reserve accounts. Replacement reserve accounts are essential protection from the rare borrower that, for whatever reason, milks a property for cash flow by deferring required maintenance. Replacement reserve funding is the first thing cut out when cash flow gets tight. Getting a borrower back on schedule after a several year hiatus is harder than getting your kids to clean up their bedrooms. CCRC holds a property's replacement reserve account and requires a deposit to the account with each loan payment. Non-payment of the required deposit is treated like a loan payment delinquency.

The next 10 years

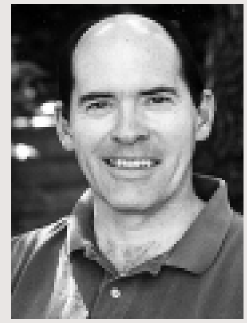
The credibility and improving balance sheet engendered by CCRC's favorable 10-year affordable multifamily mortgage origination history allows CCRC to pursue its mission in several related areas.

One such area is a small loan acquisition/rehabilitation lending program targeted to inner-city investors. In April 1999, CCRC introduced this program in Los Angeles County with promising results. To date, there have been six loans approved of which three have funded. We are looking to introduce this program to other parts of the state this year.

Another initiative is a tax-exempt bond permanent loan program in partnership with some of our member banks, the California Statewide Community Development Authority and bond counsel Orrick, Herrington and Sutcliffe, LLP. Its purpose is to increase the feasibility of small ($1–$3 million) multi-family housing bond issues thus extending the benefits of tax-exempt financing to smaller projects. This program became operational in January 2000.

Finally, CCRC's board of directors has approved the placement of a portion of CCRC's capital in direct opportunistic investments in affordable housing projects. We expect to make the first investment this year.

These are exciting, albeit challenging times given the extent of California's affordable housing shortage. The vision of CCRC's creators, and the commitment and wisdom of CCRC's members and board of directors in implementing that vision, has provided CCRC with the confidence, skills and resources to pursue today several programs that appear just as risky as tax credit project mortgages appeared 10 years ago. However, we look forward to reporting similarly favorable results 10 years from now. *CI*



About the Authors

Mary Kaiser joined California Community Reinvestment Corporation (CCRC) as its president in September 1995. She contributes a wealth of experience gained from over 20 years as a commercial banking executive. Prior to joining CCRC, Ms. Kaiser spent eight years with the Bank of A. Levy as an executive vice president and chief operating officer, overseeing the retail branch system, marketing, customer service and operations, trade finance, trust, and corporate facilities. Prior to the Bank of A. Levy, Ms. Kaiser held a variety of management positions with First Interstate Bank from 1976 through 1987.

She is a member of the executive committee of the National Association of Affordable Housing Lenders, a member of the Low Income Housing Fund loan committee, serves as an advisor to the Ventura County Community Foundation, a trustee to the Ventura County Leadership Academy and the United Way. She holds a bachelor of arts in psychology and a master's degree in business administration.

George H. Vine established his consulting practice, Vine & Associates, in 1996 to provide financial restructuring and analysis services to affordable housing investors and lenders. He has worked with CCRC since then providing real estate credit and problem asset advisory services. Prior to forming Vine & Associates, Mr. Vine was a commercial banker specializing in real estate credit for 12 years, and he worked with local community development nonprofit corporations for four years prior to that. Mr. Vine is a chartered financial analyst and has a master's degree in urban planning from UCLA.

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FOR PROGRAM AND REGISTRATION INFORMATION

Please contact Fred Mendez at (415) 974-2722 or check our website in late May at http://www.frbsf.org/frbsf/events/index.html

Bulletin

Helping Small Businesses Grow

Small business provides more than half the new jobs in California and represents tremendous potential as mainstream bank customers. Partnership between banks and technical assistance providers is critical to expanding access to training and credit for small businesses. This brief report provides an overview of the various products and services offered by technical assistance organizations and evaluates their value added to the process of creating, managing and financing small businesses. It is a practical reference that bankers can use in working with technical assistance providers to help ensure the viability and sustainability of small business.

Copies are available from Community Affairs at the Federal Reserve Bank of San Francisco by calling Judith Vaughn at 415/974-2978.

2000 CRA Awards Publication

Winners of the Federal Home Loan Bank of San Francisco/Federal Reserve Bank of San Francisco 2000 CRA Awards program were announced at the 2000 Community Reinvestment Conference held in San Francisco, April 17–19. Over 70 submissions highlighting best practices and innovative products were received in four categories: lending, investment, service, and community development. The winners in each category, along with all the qualified submissions, have been published in the 2000 CRA Awards publication. This is a valuable resource for everyone working in community development.

The full text publication is available at **http://www.frbsf.org/candca/conspubs/2000CRAwards/index.html**. *To obtain a hard copy contact Judith Vaughn at 415/974-2978.*

Mortgage Credit Partnership (MCP) Resource Guide

Are there barriers to mortgage lending based on race? A new resource guide published by the Federal Reserve Bank of St. Louis not only addresses this question, but also offers specific recommendations for eliminating barriers and increasing homeownership opportunities. This comprehensive guide is the collaborative effort of professionals from various industries involved in the mortgage process and is written to advance discussion of this issue in markets across the country through similar MCP projects. The guide is available online in PDF format at **http://www.stls.frb.org/caffairs/publications.html** or by calling Diana Zahner at 314/444-8891. Reports highlighting local MCP projects are also available respectively from the Community Affairs departments of the Boston, Chicago, Cleveland, New York and San Francisco Feds.

Arizona Native American CDC (ANACDC)

ANACDC is a multi-bank CDC created to provide credit and technical services to qualified businesses and individuals situated on reservations in Arizona. The multi-bank arrangement allows banks to increase lending and investment opportunities to Native Americans while sharing risks with other lenders. ANACDC is the first of several state CDCs operated by Emergence, the American Indian Credit Association.

For further information, contact Charley Wagner, executive director, at 406/338-2960.

Community and Economic Development Conference 2000

Seizing opportunities in a changing financial landscape is the theme of this year's conference sponsored by the Federal Reserve Banks of Chicago and St. Louis and the American Bankers Association. Topics of timely importance will explore the impact of financial modernization, using risk-based pricing and economic development strategies. Save the dates of October 30–November 1, 2000.

For further information, please contact Barbara Sims-Shoulders at 312/ 322-8232 or **Barbara.E.Shoulders@chi.frb.org**.

The State of Housing in Arizona 2000

This timely resource provides housing data including information on market trends, analysis of barriers to housing affordability and policy recommendations. Published by the Arizona Housing Commission, this extensive report is based on interviews with housing representatives from agencies, nonprofits, reservations and the private sector throughout the state. Contact Patsy Martinez at 602/280-1365 to obtain a copy or online at **www.azcommerce.com/housingcommission.htm**. The commission director, Dan Miller, may be reached at 602/280-1455.

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