Affordable Housing: Systems for Production, Finance and Community Development

Kirsten Moy

Alan Okagaki

Daniel Leibsohn

Community Development Innovation and Infrastructure Initiative

This presentation was prepared under the auspices of CDIII, a national project on the future of community development and CD finance:

- <u>Premise:</u> The economic and financial worlds have changed profoundly over the last 30 years; fundamental assumptions about community development and community development finance must be revisited.
- <u>Range of Concerns:</u> Macrofinancial trends, savings and financial services, affordable housing, business development and job creation, asset building strategies for individuals and communities, technology and community infrastructure, financial infrastructure for the CD field
- <u>Questions:</u> What is the current state of the CD and CDFI industries? How do these industries need to evolve in order to have impact in this new economic and financial world? What is needed to help move these industries into their new positions and roles?
- <u>Funders:</u> Ford, Surdna, John D. and Catherine T. MacArthur, ARCO and Citicorp Foundations; J.P. Morgan, Neighborhood Reinvestment Corporation

This presentation on affordable housing will:

- Review the history and evolution of local affordable housing (AH) production systems (particularly roles of community development corporations (CDCs) and housing development corporations (HDCs)) and affordable housing finance systems (particularly the roles of community development financial institutions (CDFIs))
- Present findings from field research in the San Francisco Bay Area, Chicago, New Hampshire and Eastern Kentucky
- Assess the present state of the industry
- Explore possible future directions

Framing Our Perspective

The major theme of this presentation is that the affordable housing industry has reached a high level of maturity compared to the rest of the community development field, but nevertheless is at a cross-roads.

Over the last 15 years, affordable housing has established itself as the signature community development strategy.

- Over 2000 community development corporations engaged in affordable housing production. Most major cities have significant non-profit housing production.
- Approximately 100,000 units of affordable housing reportedly produced each year, a significant proportion by non-profit CDCs and housing developers.
- Affordable housing is the largest activity of the Community Development Financial Institution (CDFI) industry
- Affordable housing is by far the dominant activity of the three large national community development intermediaries: Enterprise Foundation, Local Initiatives Support Corporation (LISC), and Neighborhood Reinvestment Corporation (NRC).

This non-profit affordable housing industry is characterized by sophisticated linkages with mainstream capital markets.

- For-profit and non-profit syndicators (ESIC, Natl Equity Fund) for the federal Low Income Housing Tax Credit).
- Well-established community development lending departments within major banks with portfolios concentrated in affordable housing.
- Investment advisory firms (e.g., State Street, Seix Advisors, Equitable Real Estate (now LendLease)) have created customized affordable housing portfolios for pension funds
- Secondary market agencies (e.g, Fannie Mae) offer customized CRA products for banks. Investment banking firms (e.g, Bear Stearns, ABN-AMRO) securitize and sell pools of affordable housing loans to investors.

Nevertheless, there are a number of signs which suggest the affordable housing industry is at a crossroads.

- Despite the achievements of the CD industry, the availability of affordable housing is inadequate to the need in most markets. The cost of housing is growing faster than inflation, while incomes of lower income persons are stable or declining in real terms. Overcrowding is an issue, as is the deterioration of the housing stock and loss of units through demolition on one hand and conversion to market rate housing on the other.
- Conventional lenders (and for-profit tax credit syndicators) are taking over many of the market niches pioneered by CDFIs.
- Comprehensive community building, workforce/human capital development and asset-building initiatives are competing with affordable housing as the core anti-poverty strategy.
- Funder fatigue: affordable housing production is no longer the hot new issue for many foundations and philanthropies

Consequently, the time is right for a re-examination of affordable housing and community development along a number of dimensions.

- The need for more thoughtful and deliberately planned affordable housing production and finance systems, both locally and nationally.
- Fundamental questions concerning the adequacy of our public policies to address the affordable housing issue
- Greater appreciation of the functions, roles and strengths of CDCs, HDCs and CDFIs within these AH production and finance systems
- The need for larger partnerships, which integrate affordable housing (and CDCs, HDCs and CDFIs) into broader human, community and regional development activities

History and Evolution of Local Affordable Housing Systems

This re-examination of affordable housing should be placed in the context of its history and evolution.

Before 1981, the federal government played the leadership role in affordable housing, including

- Pioneering low downpayment, long-term mortgages and creating low-interest loan programs to make homeownership accessible to greater numbers of people, especially low-income individuals and households
- Promoting LI rental housing construction, rehabilitation and preservation through mortgage insurance, rental assistance and interest subsidy programs, as well as through use of the tax code
- Creating secondary market institutions (e.g., Fannie Mae) thereby giving mortgage lenders greater liquidity;
- Supporting local public housing authorities & directly funding hundreds of thousands of units of public housing
- Creating low-interest loan programs for special needs housing such as for elderly or disabled populations

This federal support system for affordable housing was largely dismantled by the Reagan administration.

- Between 1981 and 1989, total federal support for subsidized housing fell more than 70%.
- Section 8 New Construction and Substantial Rehabilitation Program (a major subsidy source for affordable housing developers) was terminated.
- New federal policy redirected housing dollars ***away from production*** (project-based assistance) of new affordable housing units towards ***subsidy of rents*** (tenant-based assistance) for use in existing housing
- Between 1978 and 1988, the number of poor renter households receiving no housing assistance grew from 4 million to 5.4 million, a 35% increase.

In the late 1980s the Federal Government began to get back into housing, but on a piecemeal basis through the tax code and categorical grants, and, overall, at much lower levels of funding.

- Low Income Housing Tax Credit program created in 1986
- HOME Program and McKinney Program created in the early 1990s
- Hope VI (public housing) created in the mid-1990s

Limitations of new approaches include inadequate funding and lack of flexibility in categorical grant programs, and they require nonprofits to be much more entrepreneurial and more market-oriented.

Local financing and production systems had to cope with the Federal cutbacks and find new ways to develop and finance affordable housing using new programs.

- Local efforts became more formalized in many cases: e.g., through the creation of local housing partnerships
- New public financing sources were developed: e.g., new tax-exempt bonds for rental housing with noncompetitive 4% tax credits
- Local sources of subsidy were created or tapped: e.g., state and local housing trust funds, local foundations and corporations
- Local financial institutions formed loan consortia to provide construction and permanent financing for multifamily housing
- Many CDFIs and nonprofit housing developers got their start or experienced significant growth during this period

While these local efforts often started as a single development project, many evolved into ***systems*** intended to achieve ***scale.***

- Over time, there were improvements in systematizing and centralizing functions common to low-income housing projects to realize efficiencies in the financing and development process
- Resources for several projects could be aggregated at a scale and in a manner that would be impossible for a single project
- An on-going housing production system could support a wide variety of efforts within its geographic area.
- The evolution of these systems did not always take place consciously, and resulting systems varied in degree of formality, effectiveness and completeness

Two types of systems evolved hand-in-hand: a housing **production system** *and a housing* **finance system**.

While systems vary by locality, the affordable housing finance system generally includes:

- Conventional Lending Institutions: provide long- and short-term financing for affordable housing development
- Public Agencies: provide crucial subsidy that, with other sources, make development feasible
- CDFIs: fill a variety of financing gaps that public agencies and conventional lenders do not have the capacity to address
- LIHTC Syndicators: provide equity capital
- Foundations and Other Philanthropies: Operating support and loan capital to CDFIs, plus R&D funds
- CRA Advocacy Organizations: Play a key role in helping create partnerships with lenders and CDCs.
- Regulators: Support, credibility and incentives for financing

Similarly, the affordable housing delivery system now generally consists of:

- Housing Developers: CDCs, HDCs, city-wide & regional nonprofits, and for-profit developers.
- Housing Advocates: to raise issue awareness, advocate for new public policy and programs, overcome "NIMBY-ism"
- Technical Assistance and Technical Assistance Funding: to build capacity of developers
- Developer Trade Associations: support for public policy, inter-organizational learning, TA and training
- Specialized Affordable Housing Professionals: financing, accountants, attorneys, architects, consultants,appraisers, etc.
- Property Management Companies: capable of managing LI properties, including handling special tenant eligibility and reporting requirements

Affordable housing finance systems benefited greatly from two federal policies:

- <u>Community Reinvestment Act:</u> Passed by Congress in 1977, CRA puts regulatory pressure on banks to make more loans in low-income communities. In many cities, this pressure translated into banks providing financing for affordable housing projects.
- <u>Low-Income Housing Tax Credit:</u> Created by Congress as part of the 1986 Tax Reform Act, the LIHTC creates a powerful incentive for corporate investment in low-income housing rental projects.

Equity (subsidy) from the LIHTC and debt financing from CRA-motivated banks are important components of most urban and some rural affordable rental housing finance systems.

CDFIs and national and regional intermediaries have also been influential in shaping finance and production systems.

- They articulated a vision of community development centered around community-based non-profits as developers, managers, finance packagers of affordable housing.
- They established a physical presence in most major cities and some rural areas.
- They raised hundreds of millions of dollars in grants and loans for community development.
- They were pioneers in syndicating or using low-income housing tax credits for affordable housing.

In addition, intermediaries have:

- Helped build a training and technical assistance infrastructure for developing local community-based capacity.
- Developed models for public, private and civic partnerships and for organizing local investment around affordable housing production, including the creation of regional or citywide vehicles for bank participation
- Provided greater access to the capital markets: e.g., through the creation of a secondary market or the syndication of Low Income Housing Tax Credits
- In generating resources for community development, national intermediaries have had considerable impact in defining the community development agenda nationally and in the local communities in which they worked

Patterns of Evolution

The evolution and the strengths of these local housing production and finance systems vary widely across the country. We examined systems in San Francisco, Chicago, Eastern Kentucky and New Hampshire.

In the San Francisco Bay Area, several elements shaped the evolution of the AH systems.

- SF and Oakland had CDCs dating back to the 1970s. Many were well-positioned to begin developing AH after the Reagan cutbacks.
- Progressive civic culture; philanthropy and government supported fledgling AH efforts.
- The existence of relatively large nonprofit developers and the creation of BRIDGE Housing (1982) gave the area regional housing development capacity of scale, helped set standards of practice and catalyzed growth of a support infrastructure (attorneys, accountants, financiers, etc.).
- SAMCO, certain conventional lenders and the Low-Income Housing Fund (1984) pioneered AH financing techniques and catalyzed bank participation in AH projects. Some characterize the participation of California banks and S&Ls in AH as “the best in the country”

The end-result has been reasonably effective AH system, though AH needs remain high.

- Production system consists of several large regional NP multifamily and special needs developers and many smaller community-based developers. Overall, developer capacity is high.
- Banks have taken a leadership role. SAMCO was a leading bank consortium in 1980s and early 90s. Other bank consortia for AH: e.g., CCRC were subsequently created. More recently, banks have become aggressive direct lenders.
- Local public sector has played a critical role in many communities
- Supporting infrastructure is "filled out" (i.e., not many gaps) and sophisticated.
- Regulators, including the SF Federal Reserve, FHLB and OCC strongly support AH.
- Advocacy groups and AH industry associations also maintain political pressure for AH.

Despite sophistication, AH needs remain high in the Bay Area due to escalating real estate costs. Future growth capped by lack of subsidy.

- Technical sophistication and strong infrastructure do not overcome high-cost real estate market and development costs. Now, primary gap is subsidies, not debt financing.
- While AH has high civic/political profile and there is relatively unified recognition of the need, Nimbyism and restrictive zoning are obstacles to creating more affordable housing.
- Development infrastructure is "filled-out", but its density leads to competition and turf. Many players and sources of financing increase deal complexity and transaction cost.
- Local public sector support varies dramatically by community/county; state is much more focused on single-family housing

Despite sophistication, AH needs remain high in the Bay Area due to escalating real estate costs. Future growth capped by lack of subsidy (cont'd.)

- Housing affordability issue reflects fundamental ways housing markets fail low-income people -- housing costs escalate faster than income. It is also symptomatic of larger, regional planning issues, particularly the "disconnect" between the location of job growth and the location of housing.

Non-profit developers and CDFIs clearly have made leading contributions toward creating this system.

- Non-profit developers fostered the development infrastructure:
- CDFIs innovated new financing products and set standards for rigorous underwriting. Leveraged bank financing and created loan pools capitalized by banks, but with loan underwriting and packaging done by LIHF as a safer, cheaper, and more convenient way for banks to participate in AH.
- Nonprofit developers and CDFIs have served as connecting points between the mainstream business/finance world and low-income communities. They brought private sector expertise and resources to focus on community issues and accelerated innovation and learning.

In Chicago, AH development began prior to the Reagan cutbacks, as a response to white flight and wide-spread housing abandonment.

- White/middle class flight, triggered by racial integration, caused tens of thousands of housing units to be abandoned in the 1970s.
- Neighborhood organizations started doing multi-family rehab in the 1970s.
- Political advocacy was crucial in fighting redlining and accessing public subsidies and creating favorable policy changes.
- 1984 CRA challenge brought $170 million commitment by 3 large banks (Harris, First Chicago, Northern) to invest in low-income census tracts
- Neighborhood organizations collaborated in city-wide organizations to create a support infrastructure: trade associations, advocacy, TA providers.

The current system in Chicago is strongly neighborhood-based, but is also highly politicized.

- Few city-wide developers. Many neighborhood-based CDCs with uneven capacity. CDCs collaborate in city-wide industry associations, ad-hoc task forces, and other networks.
- Major subsidies controlled by City, not the State. Aldermanic district form of government lends itself to turf wars and accentuates City/neighborhood politics of resource allocation.
- Philanthropic/political culture of funding CBOs of all sorts. CDCs supported by Chicago LISC and foundations.

Today, there are two affordable housing markets and two AH housing production and finance systems in Chicago.

- A relatively small number (e.g.,10-15) of multi-layered tax credit projects are done each year by nonprofit developers
- A much greater number of AH units are rehabbed without subsidy by for-profit “Ma-Pa” rehabbers; CIC (Community Investment Corporation, a multi-bank consortium) reports that in 1998-99, over 90% of its lending was to small for-profit developers, with total project costs of under $28,000/unit and 85% of resulting rents affordable to households with incomes below 50% of median; CIC averaged around 2,500 units/year, local banks and NHS did many times more
- Chicago one of the few major urban areas where it has been possible to do affordable housing w/o major subsidies, though rising real estate markets may change this
- Shorebank and CIC pioneered lending with TA to small for-profit developers

The nonprofit system has unusually close connection to the grassroots, but faces challenges in achieving efficiency and cost-effectiveness.

- Many CDCs take a comprehensive approach to community development rather than just being housing production machines.
- However, per-unit development costs are high because:
  – transaction costs of layered financing increase with the number of financing pieces and players
  – many CDCs are small, which typically precludes scale efficiencies and the ability to bring the expertise needed to complex or specialized transactions
  – fragmentation and politics of the system creates uncertainty and delays ("time is money"), wasted effort and lost opportunities
- Also many projects were too thinly subsidized; as a result, a number of projects and several prominent organizations failed. Insufficient subsidies cap future growth.

Nonprofits and CDFIs have played critical roles in AH beyond developing and financing housing.

- Based in Chicago are nationally known and active housing advocacy organizations such as NTIC (National Training and Information Center)and the Woodstock Institute
- Work of Chicago NHS laid a foundation for the turnaround of many neighborhoods now experiencing revitalization
- Chicago Rehab Network plays a central coordinating, convening and monitoring role in AH activities
- Nonprofits and CDFIs have repeatedly introduced program innovations and proposed policy changes to overcome obstacles in the AH financing or production systems

The future direction of the Chicago affordable housing system is unclear.

- System has been hampered in the past by lack of unified public/civic vision for affordable housing. Department of Housing has a new 5-year Affordable Housing Plan, but successful implementation, including meeting "resource challenge" of identifying $30 million of new money for AH each year, will be challenging
- Current revamping of public housing may represent an historic opportunity or, in the opinion of some, a potential disaster; at a minimum, movement of families out of public housing will place further pressure on rents in neighborhoods where it is likely these families will move
- Chicago housing market has gone from "cold" to "hot." 30% of Chicago households have incomes <$20,000/year or 30% of area median; how much more difficult will it be to create unsubsidized AH for these households in a rising market?

The future direction of the Chicago affordable housing system is unclear.

- Financially troubled projects caused in part by explosion of gangs and crime. Chicago LISC's "Future's Committee" created to develop a unified vision for AH and community development activity in the future
- Since the mid-80s a history of collaboration between banks and nonprofit housing community; with mergers and loss of Chicago-based institutions, will this continue?
- Sharp increases in volume of home equity lending and subprime home mortgage financing have resulted in unprecedented foreclosure rates in certain LMI communities; per NTIC, foreclosures in the Chicago area have doubled overall between 1994 and 1998
- Lack of capacity and undercapitalization are issues for many nonprofit CDCs, HDCs

In New Hampshire, a CDFI assisted by a local college, substantially influenced the development of both the AH production and finance systems.

- New Hampshire Community Loan Fund (NHCLF) was created in 1983, out of the Community Economic Development Program at New Hampshire College.
- At that time, few established non-profit housing developers in NH; consequently in several communities NHCLF itself had to create the CDCs in order to create a market for its lending, especially for mobile home park cooperatives.
- To create loan demand, NHCLF did organizing, provided significant training and TA to existing groups, incubated several others and even paid for staffing while organizations were getting started.
- NHCLF also helped create the larger housing finance system, including new state funding programs by NH Housing Finance Authority, investment from banks; pioneering opportunities for public and private lenders.

Affordable housing system in New Hampshire has several unique characteristics.

- NHCLF's mission is to serve low to moderate income people. Unique program helps mobile home owners purchase their parks as cooperatives. Focus is on rehab projects, driven by strong local preferences and state's ambivalence toward growth.
- NH Housing Finance Agency plays an important role in supporting affordable housing and has worked to draw banks in to act collectively.
- NH geography (small state with small towns) drives CDCs and HDCs to do smaller or scattered site rental projects which can be more costly and labor-intensive, creating problems for HDCs relying heavily on developer fees to sustain operations.
- The culture of NH is entrepreneurial with real interest in local ownership and responses. Housing programs must fit the local ethos. Generally, difficult to use a new construction/tax credit approach in NH.

Overall, the system which evolved is very grassroots and well-customized to local needs. However,

- CDCs are generally small and lack scale efficiencies or high levels of self-sufficiency. Available development and operating subsidies are inadequate to support the growth of larger organizations.
- Since CDCs are small, they tend to have low pay-scales. When they lose talented staff, they have a difficult time replacing them.
- To draw in banks, NHCLF has promoted viability of CED lending by its example. But bank response has been uneven, and continuing mergers create uncertainty in the CED community, especially as banks are headquartered out of state and NH may not be a high priority.
- CDCs dependent on LIHTC as a principal source for funding development, but the LIHTC favors both new construction and larger projects which do not fit NH needs. HFA and investors have attempted to creatively adapt an arguably inappropriate vehicle to local conditions.

NHCLF exhibits the roles CDFIs can play in developing affordable housing system, but it now faces a cross-roads.

- Over time, organizations tend to become more risk-averse, even though their financial condition improves. NHCLF has consciously fought "mission creep" away from serving poorest of poor.
- Future growth of CDCs and HDCs and AH production volume capped by amount of subsidies available for developing projects and for CDC operating support.
- Banks are moving into lending niches pioneered by NHCLF. Next tier of needs require more equity or subsidy and longer-term, lower-rate financing especially for mobile home parks. However, resources to do such financing are not available.
- NHCLF Board is very clear about need to change and is working actively to identify future directions to be taken.

In Appalachian Kentucky, the AH system was largely developed by HEAD, a consortium of church-affiliated non-profit organizations.

- Human/Economic Appalachian Development Corporation (HEAD): started in late 1960s; religious, social justice, community-building orientation; embraced cooperative worker ownership and community-based development models.
- HEAD created the Federation of Appalachian Housing Enterprises (FAHE) in late 1970s; a membership organization with approximately 30 member groups in Kentucky, West Virginia, Tennessee, Virginia.
- Original model pioneered by Kentucky Mountain Housing Corporation: packaging a 1% long-term loan with Farmers Home Administration financing to get a subsidized, affordable mortgage package; target is very low and low income families
- FAHE the only source of this financing in central Appalachia

Production of affordable housing in central Appalachia has many challenges:

- Lack of infrastructure, availability of suitable land, lack of clear title
- Very low household incomes; FAHE portfolio serves an average household income of $11,000 per family
- Neither LIHTC nor secondary market programs effectively address the area's housing needs, given size of projects and lack of scale, among other factors
- Majority of banks in eastern Kentucky have historically not been active in affordable housing; no consistent presence of a regional or national bank in eastern Kentucky
- Appalachia highly isolated; outside of mainstream of capital

FAHE serves as a central financing source and TA provider for non-profit developers in Central Appalachia.

- Financing products: pre-development, construction, bridge and cashflow loans to member groups; low-interest mortgages to homebuyers. Targeting: 30%-80% of local median income.
- "Soft" services: training & TA to member groups; R&D on affordable building technology; homeownership counseling, policy advocacy.
- Heavy emphasis on home ownership rather than multi-family rental --reflection of housing stock and the value residents place on owning one's home.
- Backbone of success is the ability of FAHE to bring together subsidies from multiple state, regional and federal sources in complex packages; subsidy sources include US Dept. of Agriculture and the Appalachian Regional Commission in addition to LIHTC (to some degree) and HUD.

In sum, system in Kentucky is “home grown” with strong commitment to serving the very poor and helping to provide a full range of financial services.

- FAHE is affiliated with Central Appalachians People’s Federal Credit Union (CD credit union) and an economic development loan fund (HEAD Loan Fund) under the Appalbanc banner; an attempt to build financial infrastructure to serve the needs of low income people in a region that lacks infrastructure of all types
- Absence of CRA advocacy groups; weak support from banks.
- State Housing Finance Agency has played a very critical role
- Many FAHE members are small and “jack-of-all-trades” -- cannot develop specialized competencies. Underdeveloped organizational infrastructure -- and the funds to develop this infrastructure -- are issues for FAHE and members.
- FAHE and members have low financial self-sufficiency; raising interest rates and fees would earn more income, but conflicts with mission of serving very poor
- Nonprofit leadership has been critical in developing the system

New Directions in Affordable Housing: Navigating the Crossroads

A quick assessment of the current state of affordable housing would suggest that extraordinary strides have been made in the past 15 years

- Completely new affordable housing systems, institutions and infrastructure have been constructed over the last 15 years.
- The creation and expansion of CDFIs across the country, the deep involvement of conventional lending institutions, regulation and tax policy, and the expanded involvement of, and new roles for, the public sector
- In many of the areas of the country that can support CDFIs, they already exist.
- In some locations, large cadre of non-profit developers with significant scale and sophistication

Nevertheless, there exist a number of challenges:

- The scale of production relative to the scale of need
- Shortage of subsidy dollars
- Viable market niches for CDFIs; re-definition of market niches
- Scale, sophistication and productivity of non-profit developers and CDFIs
- Competition among nonprofit developers and CDFIs for scarce resources and development and financing opportunities
- The "unevenness" of systems and quality of service across the country
- Barriers to entry for new CDFIs in many parts of the country
- Balancing the drive for production with the need to stay in touch with and close to the community
- Ability to influence larger forces which impact on housing affordability and poverty

To produce more affordable housing, the critical gap is no longer debt financing but the need for more subsidies.

- Fifteen years ago, AH production was constrained by weak CDC capacity and lack of debt financing due to bank reluctance to participate in perceived high-risk financing.
- Today, developer capacity has grown significantly
- While there are still gaps, banks now have high comfort level in financing many types of AH, in part because of CDFIs. A number of multi-bank consortia for AH have been formed. Moreover, national & super-regional banks have made huge CD commitments, increasing supply of debt.
- Costs of developing and operating AH have increased, along with real estate costs. Consequently, projects need more subsidy/unit and less market-rate debt/unit.

Creating more subsidy for AH is a policy choice, not a market phenomena. It will require acts of political and civic will.

The growing affordability gap reflects a convergence of two market forces:

The cost of housing is increasing faster than the rate of inflation

- Over the past 25 years, housing costs for poor renters have grown more than 28% in real terms

The income of poor households is decreasing relative to inflation

- Since 1974, poor renters have lost 17.2% in real income.
- Consequently, the poor entered the 1970s spending 30% of income for housing; by 1995, they paid 58%.

In 1995, the affordable housing shortage was 12.9 million units (# of households paying >30% of income for housing) and growing.

Conventional real estate markets largely do not "work" for low-income people. Without sufficient profit potential, the market does not, by itself, produce affordable housing. That is why subsidies are needed, and why special production and finance systems for affordable housing are necessary.

Additional sources of subsidy are needed, and they must be structured to permit flexibility in recognition of local housing needs and systems.

- Needless to say, existing federal programs should be funded at higher levels and incorporate greater flexibility to accommodate local conditions. Thought must be given to means of creating permanent affordability.
- To be effective, a housing financing system needs to include both state and local participation by the public sector.
- While there are a handful of outstanding state housing finance agencies, the significant financial resources and tools of SHFAs have generally been vastly underutilized.
- Anecdotal evidence suggests that financing complexity can add as much as a third or more to project cost. Present financing/subsidy systems have to be re-designed in order to reduce transaction cost.
- CDFIs, CDCs, and HDCs have to make it their business to change policy.

Lack of subsidy also caps the growth and development of CDCs and other non-profit housing developers in most markets.

- Consistent pattern in the site visits where size and capacity of NP developers were "capped" by volume of available project subsidy (limits on production as a result of lack of subsidy mean limits on fees and cashflow and limits to growth of developers).
- Similarly, the size and capacity of CDFIs is capped by the volume of production (limits on production result in reduced lending volume, which limits growth of CDFIs).
- Several other factors come into play in certain areas: sources of operating support, local policies constraining developer fees, existence of a high-profile, high performing institution to set standards and drive progress. But impact of shortage of project subsidies on system capacity appears to be fairly universal.

Pressures to achieve self-sufficiency present an additional challenge to CDFIs and other affordable housing finance intermediaries.

- As affordable housing as matured, banks have moved into CDFI lending niches, leaving smaller and even less profitable gaps for CDFIs.
- Financing gaps that persist (e.g., predevelopment lending, certain types of community facilities, lending in rural or on reservation land, financing for special needs housing) are generally too small, too risky (or perceived to be too risky), too unproven or too costly to attract conventional lenders
- CDFIs generally do not have mechanisms for recovering the significant costs incurred in developing and promoting new products and services. Seed funding, R&D money are scarce.
- Continuing innovation to fit new market niches and pioneer new CD opportunities is a very difficult game to play, especially when financial self-sufficiency is expected.

Looking at the broad landscape of AH systems nationally, one is struck by their diversity.

- Local systems vary in terms of:: vision & mission; targeting (e.g., "poorest of poor"); sophistication; scale; players & roles; volume of resources; connection to grassroots. In some parts of the country, an AH system is notably lacking.
- A number of factors influence the shape of these local systems: strength of local economy; visibility & public attitudes about affordable housing; values concerning community participation & control; non-profit infrastructure; neighborhood advocacy; structure and culture of local banking industry; local real estate markets; subsidy requirements and sources.

The strength of this diversity is high customization to local needs, culture, and institutions. The weakness of this diversity is that many areas are poorly served; there is no uniform standard.

The diversity follows from the entrepreneurial, ad-hoc, manner in which these systems tended to evolve.

- In each of the four case studies, the AH systems evolved out of the efforts of visionary, entrepreneurial individuals and organizations rather than from the systematic design of coherent policies and programs. The history is one of "letting many flowers bloom" rather than conscious decision-making.
- Fledging AH finance and production efforts eventually mature and are institutionalized. Although often customized or reflective of place, these systems are often not as efficient or as rational as they could be when taken as a whole. They resemble smorgasbords rather than systems.

It would appear that further growth in volume, scale, and effectiveness of these local systems would benefit from a more rational, deliberative approach rather than such an ad-hoc approach. Conscious collaboration to create better systems is in order.

The diversity and the way in which these systems have evolved move us to offer some cautionary advice regarding standardized approaches and the drive to greater volume and scale.

- Standardized approaches can contribute to greater efficiency, volume and scale, but some approaches will be inappropriate for certain areas, and the cost in terms of what is excluded must be weighed
- Larger organizations may have the potential to achieve greater efficiencies than smaller ones, but increasing size sometimes leads to loss or weakening of an organization’s ties to the community
- Knowledge of, respect for, and sensitivity to local conditions and maintenance of strong community ties are key

Affordable housing needs to be better integrated into a broader spectrum of community development and asset-building strategies.

- Non-profit developers have in recent years incorporated social services into their projects, and participated in comprehensive community building initiatives.
- However, an important new direction is to bundle housing with financial services to promote asset building.
  - Financial literacy and credit repair
  - Easy access to appropriate savings vehicles
  - Affordable, prudent consumer credit
- Another important new direction is enhancing housing with telecom technology to provide residents with access to high-speed internet, telemedicine, long-distance learning, job opportunities, information on services.

Affordable housing needs to go beyond neighborhoods to regions and beyond housing to a wider spectrum of regional growth and development issues.

- Affordable housing is often viewed in isolation instead of as an important component of regional issues.
- Restrictive zoning and Nimbyism add to housing costs and the shortage of affordable housing in a region
- Affordable housing advocates can connect housing issues to broader areas of concern: regional growth and development, sprawl, transportation, long commuting time, education, mismatches between the workforce and housing location, the effectiveness of government, and overall qualities of life issues
- As housing becomes integrated with other regional issues, there are important opportunities to create larger partnerships with a broader group of stakeholders who control a larger pool of resources.

Given the existing environment and constraints, housing CDCs, HDCs and CDFIs should explore new ways to add value:

- Development and advocacy of new policies, especially to create more subsidy.
- Integrating housing with broader community development strategies, including technology and financial services.
- Creating new constituencies and larger partnerships focused on housing and community development.
- Systematically and consciously strengthening AH financing and production systems by building the capacity to review and evaluate the system in an area or region, identify the gaps, make recommendations and take steps to address the gaps, and anticipate future gaps and needs

Ultimately, there needs to be a new national commitment to affordable housing by society and government.

- Given trends in housing costs and wages in today's economy, the affordable housing issue is not going to be resolved by present production and finance systems. Incremental growth of CDCs, HDCs and CDFIs will not, by themselves, solve the problem.
- A much bigger and more powerful constituency needs to be created for affordable housing. This constituency needs to drive major policy change and create the political and societal will to provide needed resources and systems change.
- The role of the present affordable housing industry is to build the partnerships and create the constituency for change.

Sources:

- Nancy O. Andrews, *Housing Affordability and Income Mobility for the Poor: A Review of Trends and Strategies*, Meeting America's Housing Needs: A Habitat II Follow-up Project (April, 1998)
- Nancy O. Andrews, *Waiting in Vain: An Update on America's Rental Housing Crisis* (March, 1999)
- Joseph N. Belden & Robert J. Wiener, Editors*, Housing in Rural America: Building Affordable and Inclusive Communities*, California Coalition for Rural Housing Project and Housing Assistance Council (Sage Publications, Thousand Oaks, CA, 1999)
- Jean L. Cummings and Denise DiPasquale, *Building Affordable Rental Housing: An Analysis of the Low Income Housing Tax Credit,* City Research (February, 1998)

Sources:

- James Pickman, Benson F. Roberts, et al, *Producing Lower Income Housing: Local Initiatives*, The Bureau of National Affairs Inc., (Washington, DC, 1986)
- Diane R. Suchman, *Public/Private Housing Partnerships*, ULI - the Urban Land Institute (Washington, DC, 1990)
- *For Rent: Housing Options in the Chicago Region,* University of Illinois at Chicago et al (November, 1999)
- *Housing Opportunities into the Next Century: Affordable Housing Plan, 1999-2003*, City of Chicago Department of Housing (June, 1998)