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# CASCADE

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## Steps Toward a Clean Energy Recovery

By Stockton Williams, Deputy Director for Sustainable Housing,  
HUD's Office of Sustainable Housing and Communities

*Editor's note: Stockton Williams wrote this article while at Living Cities, a nonprofit with offices in New York and Washington, D.C.*

Currently, clean energy economic activity represents a tiny fraction of gross domestic product (GDP), although it is growing much faster than the current fossil-fuel economy. A report by the Pew Charitable Trusts found that while traditional jobs grew by only 3.7 percent between 1998

and 2007, jobs in the clean energy economy grew at a rate of 9.1 percent.<sup>1</sup> At the same time, there is a strong consensus that America's future global economic leadership and national security will depend heavily on the extent to which the country

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<sup>1</sup> The Pew Charitable Trusts, "The Clean Energy Economy: Repowering Jobs, Businesses and Investments Across America," June 2009, at [http://www.pewcenteronthestates.org/uploadedfiles/clean\\_economy\\_report\\_web.pdf](http://www.pewcenteronthestates.org/uploadedfiles/clean_economy_report_web.pdf).



The New Jersey Housing and Mortgage Financing Agency developed Kent Avenue Senior Apartments in Pennsville, NJ, with a solar rooftop system prior to the inception of the agency's new financing facility for construction of solar energy installations. The solar energy system was sized to meet 70 percent of the common area electric demand, reducing nonrenewable energy consumption and operating costs. The 101-unit moderate-income development also features an innovative energy conservation heating system.



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Send comments and subscription requests to Keith L. Rolland at 215-574-6569 or [keith.rolland@phil.frb.org](mailto:keith.rolland@phil.frb.org).

#### COMMUNITY AFFAIRS DEPARTMENT

**Kenyatta Burney**  
Senior Staff Assistant  
215-574-6037  
[kenyatta.burney@phil.frb.org](mailto:kenyatta.burney@phil.frb.org)

**Albert Chin**  
Consumer Specialist  
215-574-6461  
[albert.chin@phil.frb.org](mailto:albert.chin@phil.frb.org)

**Jeri Cohen-Bauman**  
Lead Administrative Assistant  
215-574-6458  
[jeri.cohen-bauman@phil.frb.org](mailto:jeri.cohen-bauman@phil.frb.org)

**Andrew T. Hill, Ph.D.**  
Economic Education Advisor and Team Leader  
215-574-4392  
[andrew.hill@phil.frb.org](mailto:andrew.hill@phil.frb.org)

**Amy B. Lempert**  
Community Development Advisor and Outreach Coordinator  
215-574-6570  
[amy.lempert@phil.frb.org](mailto:amy.lempert@phil.frb.org)

**Erin Mierzwa**  
Community Development Specialist and Administrative Coordinator  
215-574-6641  
[erin.mierzwa@phil.frb.org](mailto:erin.mierzwa@phil.frb.org)

**Dede Myers**  
Vice President and Community Affairs Officer  
215-574-6482  
[dede.myers@phil.frb.org](mailto:dede.myers@phil.frb.org)

**Harriet Newburger, Ph.D.**  
Community Development Research Advisor  
215-574-3819  
[harriet.newburger@phil.frb.org](mailto:harriet.newburger@phil.frb.org)

**Keith L. Rolland**  
Community Development Advisor  
215-574-6569  
[keith.rolland@phil.frb.org](mailto:keith.rolland@phil.frb.org)

**Marvin M. Smith, Ph.D.**  
Community Development Research Advisor  
215-574-6393  
[marty.smith@phil.frb.org](mailto:marty.smith@phil.frb.org)

**Brian Tyson**  
Community Affairs Research Assistant  
215-574-3492  
[brian.tyson@phil.frb.org](mailto:brian.tyson@phil.frb.org)

**John J. Wackes**  
Community Development Specialist  
215-574-3810  
[john.j.wackes@phil.frb.org](mailto:john.j.wackes@phil.frb.org)

**Todd Zartman**  
Economic Education Specialist  
215-574-6457  
[todd.zartman@phil.frb.org](mailto:todd.zartman@phil.frb.org)

## Message from the Community Affairs Officer

Today, everywhere you turn, you see "green." Never has the energy conservation movement been so evident in our lives, and this issue of *Cascade* is no exception. The American Recovery and Reinvestment Act (ARRA) has provided the catalyst through an enormous amount of money to support energy conservation in existing and new buildings and to train a cadre of people to make the energy-efficiency improvements. In the long run, the conservation effort will reduce our country's energy needs, but it will also reduce the living costs for all of us, including low- and moderate-income people.

Stockton Williams of HUD's Office of Sustainable Housing and Communities has identified some interesting "green" stories in the Third District. One is a new solar energy program used by the New Jersey Housing and Mortgage Finance Agency to generate electricity for multifamily buildings in its portfolio, and another is a sustainable energy utility in Delaware that Citi is helping with a planned bond issue. Instead of selling energy, it sells products to reduce energy use.

Rob Sanders of The Reinvestment Fund (TRF) describes energy financing that TRF will provide through three new loan funds. TRF is using \$20 million in ARRA money as loan capital for the three funds and leveraging other public and private sources, some with a four-to-one leverage. TRF recommends that its borrowers think about how energy efficiency can extend the life cycle of their buildings and increase cash flow. TRF believes this is financing that pays dividends.

Several articles stem from a Community Affairs meeting held in Delaware

earlier this year. Paul Bradley writes about resident-owned manufactured home communities (MHCs) and describes a successful effort in which 82 residents became owners of their park in Minquadale, DE. Did you know that there are 50,000 MHCs, also known as mobile home parks, in the United States? Would you have guessed that 2,200 of the MHCs are in Pennsylvania, 250 in New Jersey, and 175 in Delaware? It is an interesting story on a type of affordable housing often overlooked.

Two of the articles summarize presentations from the Delaware meeting on lender constraints on Community Reinvestment Act (CRA)-related loans and investments. Dudley Benoit of JPMorgan Chase Bank, Paul Marcus of Citizens Bank of Pennsylvania, Mike Skipper of WSFS Bank, and Joan Brodhead of Community First Fund explained their respective business needs given the current state of the economy. It is clear because of the Great Recession that lenders are re-examining their risk tolerance for all loans and investments, including those that are CRA-related.

If you missed our recent conference, Rethink. Recover. Rebuild: Reinventing Older Communities, which featured Federal Reserve Chairman Ben Bernanke, look for presentations, audio recordings, and videos on our website. The link is <http://www.philadelphiafed.org/community-development/events/reinventing-2010/>. Also, be sure to check out our conference photos on page 15. We hope to see you in person next time.



# Drexel Advises PHA on Energy Improvements

By Keith L. Rolland, Community Development Advisor

The Philadelphia Housing Authority (PHA) is working with a Drexel University research and advisory team to measure energy usage and evaluate energy-efficiency improvements fully or partially funded under the federal American Recovery and Reinvestment Act (ARRA).

The improvements include a building automated system (BAS) that will capture energy usage data at more than 40 PHA sites, the rehabilitation of 422 units, and the new construction of 318 units.

Carl R. Greene, executive director of the PHA, said that he proposed the initiative because he anticipated that housing authorities would be asked to evaluate energy improvements made with ARRA funds. Greene said, "There's not a lot of data that measures the results of energy conservation and energy-efficiency efforts. In the Drexel initiative, a highly motivated academic team is working with practitioners, namely, PHA engineers and architects. Our goal is a national model that can be used by HUD for housing authorities across the country and that can inform the affordable housing industry."

The Drexel team has provided the PHA with state-of-the-art research on energy conservation techniques and has collected energy consumption and utility data on different types of PHA buildings (i.e., scattered-site, high-rise, low-rise, and townhouse dwellings).

The Drexel team has several goals:

- Developing simulation models to assess the impact on energy efficiency and usage of alterna-

tive energy systems and different designs for building and heating and cooling systems;

- Evaluating actual versus projected savings from energy-efficiency measures funded under the ARRA;
- Advising the PHA on implementation of the BAS, a centralized building control, operation, and energy measurement system in which data will be transmitted to a central location; and
- Advising the PHA on the cost-benefit of energy-related investments.

The PHA has begun to implement some of the Drexel team's recommendations, such as installation of geothermal heat pump systems, solar hot water panels, and soybean-based insulation.

Jin Wen, an assistant professor in Drexel's department of civil, architectural, and environmental engineering who heads the Drexel effort, said that she and Greene started to talk about

working together after both spoke at a conference. She said that the four full-time graduate and undergraduate students who are working with the PHA "are very excited to work on this project because they can see the immediate impact of their work." In addition, Patrick Gurian, assistant professor of environmental engineering at Drexel, is assisting the effort on cost-benefit analysis, policy analysis, and indoor air quality.

Wen added that Drexel will provide the PHA with an advanced engineering model. The findings from Drexel's work with the PHA will be published, which she said will help others retrofit multifamily buildings.

The contract for Drexel's work is in effect from August 25, 2009, through August 24, 2011, and Greene said that he expects it to be extended. Drexel's work is funded with PHA operating funds.

*For information, contact Jin Wen at 215-895-4911 or [jinwen@drexel.edu](mailto:jinwen@drexel.edu), or Audrey Lim with PHA at 215-684-5772 or [audrey.lim@pha.phila.gov](mailto:audrey.lim@pha.phila.gov).*



This green roof atop the Philadelphia Housing Authority's Warnock Village senior building is one of the energy-efficiency improvements made by the Philadelphia Housing Authority since the agency started working with a Drexel University research and advisory team.

# TRF Manages Three New Energy Loan Funds

Nearly \$100 million in financing is available for energy conservation and renewable energy projects from three new loan funds managed by The Reinvestment Fund (TRF). The three loan funds, which use substantial amounts of federal energy dollars, are the Pennsylvania Green Energy Loan Fund, the Philadelphia Greenworks Loan Fund, and a planned fund to expand Greenworks to Bucks, Chester, Delaware, and Montgomery counties in Pennsylvania.

TRF, a community development financial institution formed in 1985, has provided loans and investments of \$949 million for the development of 18,860 housing units; charter schools attended by 29,000 children; and 8.3 million square feet of commercial space, including supermarkets and child care facilities. TRF staff also provides comprehensive policy and market analysis. Since 1993, TRF has been structuring below-market-rate loans with other financing to offer incentives to developers of charter schools, affordable housing, and commercial real estate to incorporate clean energy and high-performance building measures.

Robert G. Sanders, managing director of energy finance at TRF, said, "We tell our borrowers, 'if you do anything with real estate, think about financing energy efficiency. The cheapest kilowatt is the kilowatt never used.' Similarly, renewable energy fixes your costs, while conventional energy sources are subject to substantial price increases in coming years.

"There is a critical need for predictable access to capital for clean energy and energy-efficiency projects. Conventional lenders are reluctant

to lend, or when they do lend, it is on terms that incorporate very high-risk premiums. Projects that were feasible and ready to go a year ago still cannot obtain financing on commercially reasonable terms, if at all. Many entities have no ability to take advantage of grants or rebates, since they are unable to finance the balance of the project costs."

In the Pennsylvania Green Energy Loan Fund, TRF is leveraging \$12 million in federal funds authorized under the American Recovery and Reinvestment Act (ARRA) with \$36 million in commitments from private and public sources. In this fund, TRF is underwriting, originating, and servicing loans and lease financing to commercial, non-profit, government, multifamily residential, and industrial entities throughout Pennsylvania.

The \$9 million Philadelphia Greenworks Loan Fund, which also uses ARRA funds, will support energy-efficient building retrofits, machinery and equipment, and building practices in new construction projects, as well as renewable energy systems and combined heat-and-power systems. Financing of \$100,000 to \$1 million will be available to building owners, developers, or tenants of commercial, industrial, institutional, mixed-use, or cultural facilities. TRF is originating and servicing loans and verifying energy savings, while the Philadelphia Industrial Development Corporation (PIDC) is using ARRA funds to buy participations and ensure regulatory compliance. TRF and the PIDC are working closely with the city of Philadelphia in managing this fund.

In the fund targeted to Bucks, Chester, Delaware, and Montgomery counties, TRF has been awarded a \$6.75 million sub-grant through the city of Philadelphia's successful energy-efficiency and conservation block grant application to the U.S. Department of Energy. The PIDC is providing an additional \$5 million in ARRA loan capital, which TRF will leverage to attract private and other loan capital for building-related energy-efficiency projects.

Roger E. Clark, manager for energy technology and policy at TRF, added that nonprofits ought to pay more attention to their energy costs because those costs have a significant impact on their operating expenses.

**Energy-efficiency improvements can extend the life cycle of buildings and increase cash flow.**

Energy-efficiency improvements can extend the life cycle of buildings and increase cash flow, he said.

TRF had \$7,912,000 in energy-related loans outstanding as of December 31, 2009, and all of its outstanding energy loans are current and paid as agreed, according to TRF. The loans include financing for wind farms, university and hospital energy conservation projects, and solar installations. Since 1993, there has been only one energy loan net charge-off of \$211,500, TRF said.

*For information, contact Robert G. Sanders at 215-574-5850 or rob.sanders@trfund.com, or Roger E. Clark at 215-574-5814 or roger.clark@trfund.com; www.trfund.com.*

# Resident-Owned Manufactured Home Communities

By Paul Bradley, President, ROC USA, LLC, Concord, NH

Do you own a detached single-family home? Do you own the land underneath your home? For most Americans, homeownership without question includes landownership. But for roughly 2.7 million U.S. homeowners in manufactured home communities (MHCs), or “mobile home parks,” landownership is not the norm.<sup>1</sup> They rent the land from a third-party investor.

With 50,000 communities nationwide, the MHC market segment is bigger than most people realize. Pennsylvania has 2,200 MHCs, New Jersey has 250, and Delaware has 175.<sup>2</sup> Some of these communities are small — two or three homes on the same parcel in most states qualify as an MHC. Other communities have thousands of homes.

A 2003 Consumers Union study on asset appreciation confirmed that homes in MHCs tend to depreciate. The study recommended that, in order to improve home values, it is important for homeowners to gain ownership or control of the land and have access to decent single-family loans.<sup>3</sup> Having ownership or control of the land is vital to the value and security of these homes.

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<sup>1</sup> 2007 Affordable Housing Survey, available at: <http://www.huduser.org/portal/datasets/ahs/ahsdata07.html>.

<sup>2</sup> The 50,000 number is taken from the 2010 ROC USA proprietary database. The state numbers are from the technical assistance providers in those states.

<sup>3</sup> Kevin Jewel, Consumers Union Southwest Regional Office, “Manufactured Housing Appreciation: Stereotypes and Data,” April 2003, available at <http://www.consumersunion.org/other/mh/policy.htm>.

## Minquadale Village: Delaware’s First Resident-Owned Community under New State Law

In July 2009, the Minquadale Village Homeowners Association in New Castle, DE bought its 82-home community for \$1.9 million under a new state law that gives homeowner groups an opportunity to purchase their community when it is for sale. Minquadale Village was the first community purchased under the new law.

“Closing on this property sale was a dream come true not just for me but for all my neighbors at Minquadale,” said Ken Shaw, founding president of the association. “We have a lot to showcase. Everyone who lives at Minquadale already knows how wonderful it is, but we have room to grow. There are homes for sale, and there are vacant lots for other people who want to buy into what we have here.”

According to Keith Timko, director and CEO of Real Estate and Development Services (READS), “By taking ownership of the property themselves, the Minquadale homeowners not only have guaranteed the future of their community, they’ve begun to build equity in their property, and they’ve gained control over what happens there in the future.” Based in Metuchen, NJ and Smyrna, DE and founded in 2003, READS is an innovative nonprofit real estate development company committed to building strong organizations and communities.

Project financing was arranged by READS and the association’s board of directors. Deposit financing was provided by New Jersey Community Capital. Two community development financial institutions, Resident Ownership Capital, LLC and NCALL, provided permanent financing. Resident Ownership Capital closed the project loan with Bank of America warehouse funding and secured participation capital through Community Housing Capital, a nonprofit in Decatur, GA.

—Paul Bradley



This manufactured home is part of an 82-unit community in New Castle, DE that became resident owned in July 2009.

# Bankers Explain Constraints on CRA Lending and Investing

*Editor's note: Earlier this year, three bankers spoke about investment and lending constraints affecting Community Reinvestment Act-related lending and investing at a Philadelphia Fed Community Affairs Department event in Delaware. The following is a summary of their remarks.*

The bankers — Dudley Benoit, senior vice president, intermediaries lending, JPMorgan Chase Bank, New York, NY; Michael Skipper, vice president and community development manager, WSFS Bank, Wilmington, DE; and Paul Marcus, vice president, commercial real estate, Citizens Bank of Pennsylvania, Philadelphia — said that weakness in the real estate market, tighter bank lending standards, and declining availability of public subsidy dollars for community development are presenting new challenges for bank lending and investing to community development financial institutions (CDFIs) and other nonprofits.

Their remarks had several common themes:

- Banks are re-examining their risk tolerance for all loans, including Community Reinvestment Act (CRA)-related loans and investments, and have an increased emphasis on profitability and credit quality. They are much less willing to make loans on a concessionary basis and are shifting from a transactional focus to a relationship focus.
- CDFIs are experiencing growing demand for credit and technical assistance and declining funding from banks; therefore, they will need new sources of equity and loans to continue their current levels of lending.
- Banks seek CDFI/nonprofit customers that have a good management capacity and track

record and that have opportunities for profitable business.

Some of the highlights of their respective comments follow.

## **Dudley Benoit**

CDFIs have been key drivers of community revitalization at the community level because they can reach underserved markets, demonstrate innovation in products and services that effectively meet the needs of low- and moderate-income (LMI) individuals and communities, and respond quickly and efficiently to community needs in a way that traditional financial services firms cannot.

The economic downturn and pull-backs by mainstream lenders have increased demands on CDFIs to provide credit and services at several levels:

- The communities they serve are disproportionately affected by hard times.
- A large proportion of the projects CDFIs finance depend on federal, state, or local subsidies, all of which are severely strained.
- CDFI borrowers operate with thin equity cushions and few shock absorbers to cushion bad times.

CDFIs have traditionally funded a large portion of their operating activities through earnings, but those earnings have come under pres-

sure as loan losses have risen, deal volumes have declined, and sources of capital for new activities have become more expensive or unavailable altogether. CDFIs will need new forms of capital and investment to ensure that the gains of the past 20 years are not lost.

Financial institutions face the following challenges in financing CDFIs:

- *CDFI Balance Sheet Strength* — Most CDFIs borrow on an unsecured basis and have seen significant balance-sheet growth that has outstripped their equity base. Without additional equity, CDFIs will continue to push up against lender-imposed leverage covenants.
- *Size/Scale* — The economics of underwriting loans and banks' CRA goals give financial institutions incentives to make large loans to large CDFIs.
- *Availability of Subsidized Capital* — Many financial institutions have rolled their community development businesses into other mainline businesses. This has changed the focus from concessionary lending and investing to profitability and sustainability. Consolidation in the financial services industry has exacerbated this trend.
- *Business Model/Capitalization* — Many CDFIs do not have the capital base or business model that allows them to absorb market-rate debt.

- *Increased Scrutiny* — While the historical performance of the CDFI industry is exemplary, the recent credit crisis has caused financial institutions to re-examine their risk tolerance for certain CDFI products. Bank investors are looking for more balance in loan types and geographic diversification.
- *Relationship Banking Model* — Another result of “mainstreaming” community development at financial institutions is the focus on relationship banking. Fewer community development divisions are lending-only departments.

### Michael Skipper

*Real estate constraints.* There are presently real estate constraints on banks when making CRA loans and investments involving real estate. In housing developments in LMI communities, below-market rents may strain long-term financial viability. Rehabilitation or construction costs typically exceed the price for which a development can be sold. There is less appetite for federal low-income housing tax credits, and gap or subsidy funds from federal and state governments are shrinking. As a result, the public leverage that triggered private investment is also shrinking.

*Market condition constraints.* Another set of constraints involves current market conditions. In the recent recession, uncertainty has grown about real estate valuations; as a result, banks have tightened loan-to-value (LTV) ratios. Regulatory agency oversight on credit policy has led to risk aversion, tightened credit standards, heightened pressure on return, and reluctance to delegate authority through participation. Small businesses are also struggling with low revenues, job contraction, and



WSFS Bank in partnership with Barclays Bank Delaware in Wilmington provided construction financing for the conversion of a commercial building in downtown Wilmington into 16 efficiency apartments. The developer was Connections Community Support Programs, Inc. The Delaware State Housing Authority provided construction and permanent financing and an allocation of low-income housing tax credits.

problems in the real estate market. The Small Business Administration has tightened its lending criteria.

*Future collaboration between nonprofits and banks.* Nonprofit borrowers will need to share the risk of project financing, be more flexible in their requirements, and expect more active bank oversight. There needs to be greater market efficiency in the allocation of banks’ loan and investment dollars to nonprofit borrowers.

### Paul Marcus

Weakness in the markets for retail, office, and other types of real estate is having an impact on all bank and real estate lending. There is widespread attention to real estate portfolio quality, capital adequacy, and profitability. As a result of losses on commercial real estate loans, banks are improving their capital position by shrinking their loan asset base or raising capital.

Under current market conditions, the highest quality transactions will get the limited dollars that are available. Some homebuyers find it challenging to obtain mortgage loans. There is a huge availability of existing homes, so financing may be limited for new affordable housing developments.

CRA loans face a “credit hurdle” within financial institutions because the loans as a group have not always been made to the strongest sponsors when compared with well-capitalized for-profit sponsors. Nonprofit borrowers rely on government sources for equity and have little cushion when markets change. CRA lending policy is becoming less flexible and more conservative in debt service, cash equity, LTV ratios, pricing, and loan term. In the present environment, speculative transactions are becoming more uncommon; for-sale units are pre-sold and commercial transactions are pre-leased.

In a world of limited capital, capital will go to a bank’s best customers. There is more emphasis on profitability and, in turn, on credit quality and loan pricing — the pillars of profitability. Banks must balance their ability to increase CRA lending with their need to generate returns.

In the present climate, there is a shift from a transactional focus to a relationship focus. Large banks find it challenging to originate small transactions and are seeking geographic distribution of their CRA investments. Banks cannot be all things to all people and are looking for long-term partnerships.



## Is a Reverse Mortgage in Your Retirement Plans?

Individuals are constantly reminded to start planning for retirement as early as possible. This is sage advice given that it takes increasingly more in savings to supplement Social Security retirement benefits in order to live comfortably in the golden years. The recent economic downturn has made retirement planning even more challenging for many individuals who thought they had amassed the requisite amount of savings to ensure their future retirement.

For elderly homeowners with equity in their homes, one option to smooth their consumption during the retirement years is to rely on a reverse mortgage, which allows them to borrow against their home. However, reverse mortgages are complex financial products that may or may not be a viable alternative. A study by Hui Shan provides valuable information about the reverse mortgage market.<sup>1</sup> Following is a summary of her study.

### Background on Reverse Mortgages

The most common of the different types of reverse mortgages — and the one studied by Shan — is the home equity conversion mortgage (HECM). Established by Congress in 1987, the HECM program is administered by the Department of Housing and Urban Development (HUD) and insured by the Federal Housing Administration (FHA). To be eligible for a HECM loan, an individual must be at least 62 years of age and live in a one-unit residence with no liens or with adequate equity to support the loan.<sup>2</sup> In contrast to the traditional home equity loan or home equity line of credit (HELOC), a HECM loan has no maturity date. Thus, the loan becomes due (i.e., terminated) if the borrower dies or no longer lives in the home.<sup>3</sup> Moreover, borrowers of home equity loans and HELOCs must be creditworthy and possess sufficient income to qualify,

which are not necessary for HECM loans.<sup>4</sup> According to Shan, elderly homeowners who are house-rich but cash-poor might be attracted to HECM loans.

The HECM loan amount is based on the borrower's age, amount of equity in the home, and the interest rate.<sup>5</sup> There are some upfront costs associated with a HECM loan such as the initial mortgage insurance premium (MIP),<sup>6</sup> origination fee, closing costs, and monthly servicing fee. However, these costs are financed and not paid out of pocket by the borrower.

Borrowers can choose to receive the loan funds in the following ways:<sup>7</sup>

- Lump sum
- Tenure plan — Receive equal monthly payments while residing in the house

<sup>1</sup> Hui Shan, "Reversing the Trend: The Recent Expansion of the Reverse Mortgage Market," Board of Governors of the Federal Reserve System, Finance and Economics Discussion Series 2009-42 (2009).

<sup>2</sup> These are nonrecourse loans, which "means that the borrower and [his or] her estate will never owe more than the value of the property and no other assets can be seized to repay the loan."

<sup>3</sup> However, the mortgage may become due and payable if the borrower fails to pay taxes or insurance or make needed repairs.

<sup>4</sup> But the author points out that "borrowers who have [been] delinquent or defaulted on federal debt may not be eligible for HECM loans."

<sup>5</sup> The calculation is also governed by the maximum claim amount (MCA), which is the "lesser of the appraised value of the property or the county-specific FHA mortgage limit for a one-family residence under Section 203 (b) of the National Housing Act." This serves to "cap the amount of the housing equity the borrower can use to purchase reverse mortgages." See Shan's study for specifics regarding the calculation.

<sup>6</sup> This helps finance the FHA's insurance program, which insures the borrower if the lender is unable to make the contracted payments and insures the lender up to the MCA if the outstanding loan balance exceeds the sale price of the property.

<sup>7</sup> According to Shan, line of credit disbursements are the most popular payment plan.



- Term plan — Receive equal monthly payments for a fixed period of months
- Line of credit plan — Take the money as needed
- Combination of a line of credit with tenure or term plans

## Data and Methodology

Shan notes that most of the studies on reverse mortgages are not based on loan-level data and thus are not as accurate. Those that are based on loan-level data are limited in scope or “analyze only the data from earlier years of the HECM program.” To fill this void, the author used HUD data on all HECM loans made from 1989 to 2007. Each loan record contains demographic information on the borrower and the property as well as the amount and terms of the loan. After making adjustments to the data, Shan was left with a sample of 375,392 observations. The author then merged the HECM data with several other databases to form the data set that was used in her analysis.<sup>8</sup> In addition to presenting descriptive statistics, Shan also used regression techniques to analyze the data.

## Results

The author’s analysis focused on the following aspects of the HECM market:

*Characteristics of HECM Borrowers and Loans.* Shan found differences between HECM borrowers and the general population, as well as differences among HECM borrowers in the early years and those in 2007. HECM borrowers are slightly older than homeowners who are 62 years of age and older in the 2000 census data (with a

median age of 73.5 versus 72.0). The data revealed that “single males and single females are more likely to purchase reverse mortgages than married couples.” Also, married couples comprise a lower percent (36 percent) of HECM borrowers compared with their counterpart (52.8 percent) in the general population. The author further noted that the “demand for reverse mortgages has been growing most rapidly among younger elderly homeowners.”

Shan used regression analysis to explore variation in the geographic distribution of reverse mortgages across and within metropolitan statistical areas (MSAs). She found that “reverse mortgages are more likely to originate in income-poor but housing-rich MSAs but not necessarily in income-poor but housing-rich ZIP codes within any given MSA.”

*Termination and Assignment Outcomes.* The author used different regression techniques to study the termination and assignment of HECM loans. Her “estimates suggest that borrowers who choose the line-of-credit payment plan, male borrowers, and borrowers with higher housing values terminate HECM loans sooner than other reverse mortgage borrowers.”

When a HECM loan balance reaches 98 percent of the maximum claim amount, a lender can assign it to HUD. If the loan balance exceeds the sale proceeds, the FHA insurance program covers the difference. An examination of assignment outcomes revealed that relative to term or tenure payment plans, loans with line-of-payment plans are more likely to be assigned to HUD and thus impose higher risks of financial losses.



Marvin M. Smith, Ph.D.,  
Community Development Research Advisor

*Housing Price Appreciation.* All things being equal, housing price appreciation should have an increasing effect on the demand for reverse mortgages. Shan’s estimates supported this effect.

*FHA Mortgage Limits.* Shan also examined whether FHA mortgage limits reduced growth in reverse mortgages. Her analysis found no such effect.

## Concluding Observations

Shan concluded by discussing the misconceptions about HECM loans, two of which are:

- **Once in the HECM program, borrowers relinquish their home to the lender.**

Borrowers retain ownership of their home, but they must repay “the lesser of the loan balance or proceeds from the property sale.”

- **High costs for HECM loans imply a bad deal for elderly homeowners.**

A HECM mortgage is costly due to the MIP to insure the lender and the borrower.

<sup>8</sup> Those data sets used in the merger include the 2000 census, First American CoreLogic data, 1990–2008 county-level FHA mortgage limit data, and a “dataset purchased from the United States Postal Service to match ZIP codes with counties for each HECM loan in [her] sample.” She also used 1989–2007 Survey of Consumer Finances (SCF) data on homeowners who are 62 years of age or older for comparison purposes.

# CDFI Intensifies Focus on Delinquency Management

*Editor's note: Earlier this year, Joan M. Brodhead, senior vice president and chief operating officer at Community First Fund in Lancaster, PA, spoke at a Philadelphia Fed Community Affairs Department event in Delaware. The following is a summary of highlights from her presentation.*

Community First Fund provides financing for small businesses, community revitalization, and affordable housing in a 13-county region of central Pennsylvania. It focuses primarily on small cities and towns with a population of 5,000 to 50,000 residents and has a mission of supporting economic revitalization in older cities, de-concentrating poverty, and supporting community wealth building.

Since its inception in 1992, Community First has lent \$32 million. Annually, Community First makes about 75 loans totaling \$6.5 million, which is almost double its level of lending from five years ago. Real estate values in central Pennsylvania have been relatively stable during the past 10 years; they didn't soar as they did in some parts of the country and haven't dropped greatly in the past three years or so.

## Current Challenge

The biggest change in Community First's business is an intense focus on delinquency management. The community development financial institution (CDFI) now reviews delinquencies on a daily rather than weekly basis and has strengthened its internal reporting systems to track delinquencies, added a collections staff person, and increased on-site visits to borrowers. It analyzes

delinquency and write-off trends by industry and product.

Community First reviews its financial performance data within 30 days of the end of each month. It also gives a risk rating to each loan and sets aside loan-loss reserves for all loans.

Community First strives for a balance of managing risk and providing reliable capital to small businesses and nonprofit borrowers. It provides an average of 20 to 25 hours of technical assistance at no charge to borrowers prior to the issuance of a loan.

## Fundraising Efforts

Each year, Community First raises about \$9 million in debt, \$2.5 million in equity, and \$3 million in operating funds. A full-time development director has led the CDFI fund-raising efforts for more than eight years. Its equity grants have come primarily from the U.S. Treasury's CDFI Fund, the Pennsylvania Department of Community and Economic Development (DCED), and the U.S. Department of Health and Human Services' Office of Community Services. Its investments are primarily from

national, regional, and local banks; the Opportunity Finance Network; individual investors; and social investors, including religious orders. Its operating funds come from public and private sources, such as the DCED, the U.S. Small Business Administration, local community development block grant programs, foundations, banks, and individual contributors.

Community First now reviews delinquencies on a daily rather than weekly basis and has strengthened its internal reporting systems to track delinquencies, added a collections staff person, and increased on-site visits to borrowers.

In order for CDFIs to raise loan capital and grants from financial institutions, CDFIs must communicate well with these institutions and understand what information is needed and when. CDFIs must also respond quickly to requests for new or additional information.

*For more information, contact Joan M. Brodhead at 717-393-2351 or [jbrodhead@commfirstfund.org](mailto:jbrodhead@commfirstfund.org); [www.commfirstfund.org](http://www.commfirstfund.org).*

# Balancing Enterprise, Environment, and Equity

By Sandy Wiggins, Principal, Consilience, LLC, Principal of Aye Partners, and Past Chair of the U.S. Green Building Council

Making business decisions that balance returns to the enterprise (profit), the environment (the planet), and social equity (people) helps to meet the triple bottom line (TBL). TBL accounting is one of many emerging tools that facilitate a new, values-based model for business success. It is a response to the recognition that when decisions focus solely on profitability, they almost always penalize long-term economic health and quality of life.

Practices such as TBL accounting stem from a broader conversation about sustainability. We now live in a world where rising population growth and per capita consumption and declining resources are colliding. My definition of sustainability, which has evolved over time, is “a state of perpetual vitality supported by resources local to a place.” Think of a well-established forest ecosystem. It is always vital and growing. It is populated with diverse, interdependent species that are constantly adjusting their relationships in order to maintain and sustain the ecosystem.

This is an ideal model for communities, which are made up of diverse, interdependent people such as bankers, bakers, and builders. Of course, the model breaks down when people upset the natural balance in pursuit of their own self-interests. This can contribute to a focus on short-term profits at the expense of long-term, sustainable economic health.

Bankers can play an important role in changing this trend. In our communities, banks act as the conduits



Aerzen USA; www.aerzenusa.com

This manufacturing facility in Coatesville, PA uses half the energy of conventional factories its size and is one of the first manufacturing facilities in the U.S. to receive LEED gold certification from the U.S. Green Building Council.

for the flow of financial capital between depositors and creditors. Ideally, this service creates value, builds prosperity, and improves the quality of life. The outcome depends entirely on making the right decisions about where the flow of capital is directed, that is, deciding who or what is creditworthy.

Credit decisions made with an eye toward TBL returns are fundamentally different from business-as-usual banking. They direct the flow of money toward sustainably oriented enterprises and lifestyles. Importantly, such credit decisions don't fly in the face of good risk management. Screening for sustainability, in addition to adhering to traditional standards of creditworthiness, actually improves the risk profile of a loan.

Take real estate lending as one example. TBL underwriting requires that a building's life cycle, environmental impact, and operating costs be included in the loan decision. Successful green buildings dramatically reduce operating costs, increasing the cash flow that a business or homeowner has available to repay a

loan. They provide healthier environments for the occupants, eliminating problems such as mold and sick building syndrome. They are more durable and adaptable than conventional construction, reducing future capital requirements. Studies, such as the recent report by CB Richard Ellis and the Burnham-Moores Center for Real Estate at the University of San Diego, document that productivity goes up and absenteeism goes down, increasing profitability.<sup>1</sup> In response, the market is setting higher rents and resale values on green buildings.<sup>2</sup> Loan policy that favors green buildings accelerates this trend by sending the market a signal that sustainability matters.

To build real, lasting prosperity, our business decisions need to keep enterprise, environment, and social equity in balance.

*For more information, contact Sandy Wiggins at 610-647-4658 or [s.wiggins@e3bank.com](mailto:s.wiggins@e3bank.com), or visit [www.e3bank.com](http://www.e3bank.com). Consilience, LLC is a national green building consultancy, and Aye Partners is a developer of net zero energy buildings and communities.*

<sup>1</sup> See <http://www.cbre.com/USA/Sustainability/Envirometrics.htm>.

<sup>2</sup> See <http://www.costar.com/uploadedFiles/Partners/CoStar-Green-Study.pdf>.

# Steps Toward a Clean Energy Recovery ...continued from page 1

addresses the challenges — and seizes the opportunities — associated with climate change and an unsustainable reliance on fossil-fuel energy.

The rationale for green investments is not limited to the benefits from reducing greenhouse gas emissions or reliance on unstable regions around

**The New Jersey Housing and Mortgage Finance Agency is using federal economic recovery funds to seed an innovative financing facility for solar power in low-income rental apartments.**

the world. A wide range of research has shown that clean energy generates substantial economic gains. A widely cited study by McKinsey and Company determined that the U.S. economy has the potential to reduce annual nontransportation energy consumption by roughly 23 percent by 2020, saving more than \$1.2 trillion in waste, for an upfront investment of \$520 billion.<sup>2</sup>

Other studies have found that clean energy creates more jobs and higher

paying jobs than those associated with fossil-fuel energy. One analysis found that \$1 billion invested in a power plant creates 870 jobs compared with 1,700 in solar photovoltaics<sup>3</sup> and 6,000 in building retrofits.<sup>4</sup>

The environmental and economic benefits of green investments can also be seen at the community

level. A study of a low-income Philadelphia neighborhood by the University of Pennsylvania examined 200,000 sales for the period 1980 to 2005 and noted significant

economic benefits from green investments. For example, the study found that investment in horticultural treatments to a sidewalk or roadway that improved appearance (while helping cut pollution and mitigate storm water runoff) increased surrounding home values about 28 percent relative to similar homes in comparable areas without streetscape improvements.<sup>5</sup>

It is not surprising to see financial institutions starting to capitalize

on the benefits of a clean energy economy. Citi has helped the state of Delaware launch a “sustainable energy utility” (SEU) that turns that traditional utility business model on its head. Unlike typical utilities, which make more money from selling more energy (generally without regard to its source), the SEU is designed to be financially sustainable by offering products that reduce energy use and deliver energy when needed from cleaner sources. One of the SEU’s first products is low-cost financing to enable schools to make energy retrofits. SEU, working with Citi, will use municipal bonds to fund the retrofit improvements and a contractual guarantee on the loan repayments from future energy savings in the schools. The city of Philadelphia is considering creating a similar entity to the Delaware SEU.<sup>6</sup>

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) is using federal economic recovery funds to seed an innovative financing facility for solar power in low-income rental apartments. The agency is offering zero interest loans for the construction of solar energy installations on affordable low- and moderate-income multifamily build-

<sup>2</sup> Hannah Choi Granade, Jon Creyts, Anton Derkach, et al., “Unlocking Energy Efficiency in the U.S. Economy,” McKinsey and Company, July 2009, available at [http://www.mckinsey.com/client-service/sustainability/pdf/US\\_energy\\_efficiency\\_full\\_report.pdf](http://www.mckinsey.com/client-service/sustainability/pdf/US_energy_efficiency_full_report.pdf).

<sup>3</sup> Photovoltaics is the direct conversion of light into electricity at the atomic level.

<sup>4</sup> Alexander Berzon, J. Patrick Coolican, and Stephanie Tavares, “Clinton: Efficiency Efforts Would Bring Jobs Boost,” *Las Vegas Sun*, August 10, 2009, available at <http://www.lasvegassun.com/news/2009/aug/10/energy-summit-begins-amid-protests-outside/>.

<sup>5</sup> Susan M. Wachter, Kevin C. Gillen, and Carolyn R. Brown, “A Positive Force in Cities: Green Investment Strategies,” University of Pennsylvania, 2008, available at [http://www.community-wealth.org/\\_pdfs/news/recent-articles/04-08/article-wachter-et-al.pdf](http://www.community-wealth.org/_pdfs/news/recent-articles/04-08/article-wachter-et-al.pdf).

<sup>6</sup> In the spring of 2010, Philadelphia’s City Council passed an ordinance creating an energy authority. The Mayor’s Office of Transportation and Utilities views the major advantage of an authority as the ability to enter into long-term contracts for alternative energy projects, such as solar or wind power, or long-term energy service company (ESCO) agreements to upgrade city buildings with energy-efficiency features. For information, contact Andrew Stober, director of strategic initiatives, Mayor’s Office of Transportation and Utilities, City of Philadelphia, at 215-686-8158 or [andrew.stober@phila.gov](mailto:andrew.stober@phila.gov).

ings with NJHMFA mortgages or in the NJHMFA portfolio. Solar energy systems will be appropriately sized, and the solar renewable energy certificates (SRECs) that are generated from each system will be used to repay the loan. SRECs are tradable certificates that represent the clean energy benefits of electricity generated from the solar electric system and are sold or traded for value.<sup>7</sup> The revenue from these certificates will establish a revolving funding program at the agency to support

additional solar energy projects at its residential properties.

To be sure, these efforts by banks and public agencies represent a very small share of overall capital investment. As noted above, the clean energy economy itself is at a nascent stage. To a significant extent, public policy — at the federal, state, and local levels — will play a critical role in determining the pace and scale of an acceleration to a new economic paradigm for the country. Observers

from all points on the ideological spectrum see that not as a matter of “whether,” but “when” and “how.” Banks and other private and public institutions that are in the game now will have the best opportunities to help answer those questions for their shareholders, their communities, and the nation.

*For information, see [http://portal.hud.gov/portal/page/portal/HUD/program\\_offices](http://portal.hud.gov/portal/page/portal/HUD/program_offices).*

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<sup>7</sup> For “Frequently Asked Questions: New Jersey’s Solar Renewable Energy Certificates (SRECs) Program,” go to [http://www.abanet.org/environ/committees/renewableenergy/teleconarchives/021506/New\\_Jersey\\_REC\\_program.pdf](http://www.abanet.org/environ/committees/renewableenergy/teleconarchives/021506/New_Jersey_REC_program.pdf).

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## Resident-Owned Manufactured Home Communities ...continued from page 5

About 59 percent of all types of manufactured housing is owned by households earning \$39,999 or less per year.<sup>4</sup> These homeowners are at risk due to land rent escalation, physical upkeep of the community’s systems, and community closure and ensuing displacement, which generally occurs due to change of land use.

For the past 25 years, homeowners and private and public players in New Hampshire have targeted two market dynamics for change: land security through resident ownership and access to decent single-family financing for homeowners in resident-owned communities. The impact of this work on the security and value of homes in MHCs has been statisti-

cally significant. Today, 95 MHCs in New Hampshire, which are home to over 5,300 homeowners, are resident-owned cooperative communities. Loan performance of these co-op borrowers has been very strong; there have not been any payment defaults on bank, public agency, and community development financial institution (CDFI) financing totaling over \$150 million.

In 2005, a Carsey Institute study on resident-owned communities documented several findings:

- The homes in the resident-owned communities sold faster than those in comparable investor-owned communities.
- They had a higher average sale

price (12 percent higher).

- Homeowners in resident-owned communities were more likely to have fixed-rate loans than those in investor-owned MHCs.<sup>5</sup>

The demand for community training and financing from homeowners, community owners, nonprofits, and public officials led to the formation of ROC USA, LLC in May 2008 to “make resident ownership viable nationwide.” Four nonprofits — NCB Capital Impact, Neighbor-Works America, CFED, and the New Hampshire Community Loan Fund — sponsored the nonprofit ROC USA. Significant investments from the Ford Foundation and Fannie Mae

...continued on next page

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<sup>4</sup> Source: 2008 Manufactured Homes Market Facts Report, available at [http://cp.foremost.com/market-facts-2008/9001479\\_MH\\_NFO\\_08\\_lores.pdf](http://cp.foremost.com/market-facts-2008/9001479_MH_NFO_08_lores.pdf).

<sup>5</sup> Sally Ward, The Carsey Institute, University of New Hampshire, “Resident Ownership in New Hampshire’s ‘Mobile Home Parks’: A Report on Economic Outcomes,” September 2006, available at <http://www.rocusa.org/uploads/Carsey%20Institute%20Reprint%202010.pdf>.

have been instrumental in launching this initiative.

ROC USA operates two subsidiaries that focus on solving the two basic problems homeowners face when they seek to purchase their community as a democratic resident corporation:

1. *Resident Ownership Network, LLC* is a network of 11 regional nonprofits that provide pre- and post-purchase training and technical assistance to local homeowner groups in 34 states. The nonprofits include PathStone, which serves Pennsylvania, and Real Estate and Development Services (READS), which serves New Jersey and Delaware.<sup>6</sup>
2. *Resident Ownership Capital, LLC* provides 105 percent loan-to-value (LTV) community purchase loans to qualified resident corporations.

To date, the results indicate robust demand and proof of concept for the New Hampshire-tested limited-equity co-op model. In its first two years, the Resident Ownership Network's technical assistance providers have supported homeowners in purchasing 16 communities, thereby preserving 1,182 homes in eight states.

A PathStone-supported project in Elbridge, NY typifies why homeowners want ownership. "We made a choice to become a resident-owned community to help secure our children's futures and for all the families who will flourish in this community for years to come," stated Wayne Husted, the

president of Champion Park Homeowners Association in Elbridge.

Resident Ownership Capital has provided senior mortgage loans totaling \$10.9 million in four communities in Delaware, Connecticut, New York, and Texas. Certified as a CDFI in late 2009, it originates and services whole loans and sells senior and pari passu participating interests in its loans as a means of leveraging its balance sheet. Participation loans have been arranged with several types of lenders, including banks, housing finance authorities, and CDFIs. Participating lenders enjoy its risk mitigation system, which includes experienced underwriting, retention of junior interests in loans, and ongoing technical assistance support for borrowers for the life of the loan. Borrower post-purchase technical assistance is provided by a technical assistance provider certified by the Resident Ownership Network and paid for by borrowers in their loan payment.

One core element of the ROC USA model is affordable membership shares in the resident corporation. While the low "down payment" puts emphasis on securing high LTV commercial loans, the impact on communities is what's important: Every homeowner in a ROC USA community can afford to become a member. ROC USA's model creates whole communities of owners and members; it does not create communities of members and nonmembers in which nonmembers simply

cannot afford the member share price. Expensive membership shares can create bifurcated communities and negative consequences because members and nonmembers are treated very differently. Resident Ownership Capital solves this problem through high LTV first mortgage loans on the land and improvements, credit enhancement to manage LTV risk, and senior position financing from private and public lenders.

ROC USA is focused on finding "for sale" communities and providing homeowners with an opportunity to become community owners. All

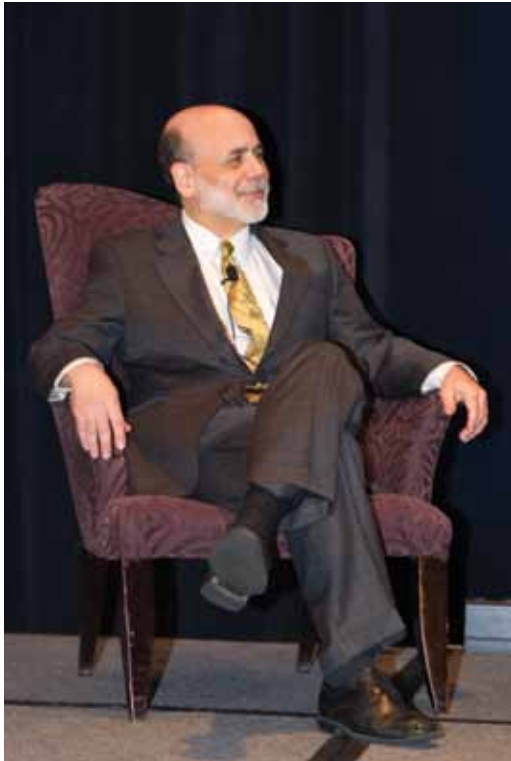
Once a seller is found, ROC USA has demonstrated that it can bring a community from investor owned to resident owned in 90 to 120 days.

purchases start with a willing seller. Once a seller is found, ROC USA has demonstrated that it can bring a community from investor owned to resident owned in 90 to 120 days. To operate successfully in the commercial market, with sellers' expectations for expediency and dependability, ROC USA has readied the resources for an efficient path to resident ownership when homeowners choose to seek ownership of the land on which their home resides.

*For information, contact Paul Bradley at 603-856-0709 or [pbradley@rocusa.org](mailto:pbradley@rocusa.org); [www.rocusa.org](http://www.rocusa.org).*

<sup>6</sup> John Wiltse, director of housing for PathStone, may be reached at 585-340-3346 or [jwiltse@pathstone.org](mailto:jwiltse@pathstone.org). Keith Timko, director and CEO of READS, located in Metuchen, NJ and Smyrna, DE, may be reached at 732-635-1000, ext. 152 or [ktimko@readsusa.com](mailto:ktimko@readsusa.com).

# Rethink. Recover. Rebuild: Reinventing Older Communities



The Philadelphia Fed's Community Affairs Department held its fourth biennial conference on reinventing older communities on May 12 to 14, 2010 in Philadelphia. The conference focused on rebuilding older communities in the wake of the foreclosure crisis and the federal government's economic stimulus programs. Over 400 participants included leading policymakers, community developers, bankers, researchers, funders, planners, and government representatives. Presentations and videos may be found at <http://www.philadelphiafed.org/community-development/events/reinventing-2010/>.



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