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CASCADE

INSIDE:

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Nonprofit Focuses on Employment Training and Business and Community Development*

By Keith L. Rolland, Community Development Advisor

Impact Services Corporation, located in Philadelphia's Kensington neighborhood, is one of the largest nonprofit providers of employment and training services in Pennsylvania. However, Impact is unusual among nonprofits in this field because it works closely with area businesses and creates jobs through community development projects and Impact-owned businesses.

Impact provides citywide employment and training services, primarily serving ex-offenders, veterans, and women receiving Temporary Assistance for Needy Families (TANF). Data on these populations are provided later (see Figure). Impact has helped over 23,000 individuals enter the workforce since it was established 38 years ago. From July 1, 2010, to June 30, 2011, Impact placed 1,197 individuals in jobs.

John MacDonald, Impact's founder, president, and CEO, said, "Work is a way for folks to move forward with their lives and is the best way to lift families out of poverty, especially if they have a chance to improve their educational and employment skills."

Meanwhile, in the Kensington area Impact organizes business owners and is a catalyst in community development projects.[1] For example, Impact:

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* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

[1] Impact serves the following 2010 census tracts: 176.02, 177.01, 177.02, 178, 188, 192, and 382.

Photo Credit: Melissa Kinney

Impact Services Corporation helped to develop Aramingo Crossings, a 25-acre $45 million shopping center that created over 600 jobs. The center, which was built on the vacant site of a former pipe factory, is anchored by Walmart and Lowe's.

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Message from the Community Affairs Officer

It is my great pleasure to write my first message as the new community affairs officer of the Federal Reserve Bank of Philadelphia. This is an exciting time to join the Community Development Studies and Education Department because there are many opportunities to engage with the diverse, rich network of community development practitioners in the Third District and across the nation.

These first few months have enabled me to meet some of our community stakeholders and begin identifying new ways to ensure that underserved and low- and moderate-income communities have access to credit and stronger connections to economic resources. For me, effective community development occurs only when partnerships build on the strengths of their members to meet community needs.

Communities across the Third District continue to be challenged by affordable housing, economic development, and human capital needs. Several articles in this issue of *Cascade* highlight different ways stakeholders have approached these issues using creative models of collaboration to bring about innovative solutions.

Impact Services Corporation has been successful in providing employment and training services to 23,000 residents in the organization's 38-year history. Impact has been able to successfully place many of its clients by working closely with local business owners and encouraging the owners to hire Impact's trainees.

The effort to use new markets tax credits to restore a Gettysburg landmark illustrates the variety of partners needed to bring a historic building into the modern age and encourage tourism in a rural community. Also, in central Pennsylvania, a housing preservation initiative was made financially feasible by consolidating seven properties in a $26 million transaction. These efforts exemplify what is possible when people, organizations, and resources are brought together to explore ways to solve our communities' problems.

In my first few months on the job, I have had the privilege of seeing the results of the great work that was started under the leadership of Dede Myers, including the Reinventing Older Communities conference, which was held May 9–11, 2012. I have been impressed with the level of partnership and collaboration that exists between the Federal Reserve Bank of Philadelphia and community development practitioners, and I am looking forward to exploring new ways we can work together to help bridge the critical gaps in our communities.

Partnership depends on communication, and I strongly encourage you to reach out to us. Let us know about the issues affecting your communities and the successes you are enjoying through your programs and other efforts. Share your insights on regional trends by participating in the Community Outlook Survey.

PNC Leverages New Markets Tax Credits in Rural Project*

By Christopher Rockey, Vice President, PNC Community Development Banking, Camp Hill, PA, and David Gibson, Senior Vice President, PNC New Markets Tax Credit Product Manager, Pittsburgh, PA

There are few more iconic images in our nation's collective memory than that of the 1863 Civil War Battle of Gettysburg, which took place in Adams County, a rural community nestled in south-central Pennsylvania. To this day, the land remains a hallowed place where soldiers courageously fought to honor their convictions and where local residents rose to the occasion to provide soldiers with care and comfort regardless of their political and religious beliefs. Today, area businesses and community and civic leaders remain dedicated to preserving and promoting the importance of the historic event and the quality of life in the region.

Today's Expertise Preserves a Piece of American History

With the pending 150th anniversary of the Battle of Gettysburg and President Abraham Lincoln's famous Gettysburg Address, many observances are being planned. One of the most poignant is the restoration of Schmucker Hall, part of the Lutheran Theological Seminary at Gettysburg (LTSG). The 180-year-old building, which some historians believe is one of the most significant structures to survive the battle, will be converted into an accredited history museum to be named the Seminary Ridge Museum (SRM), in honor of its use as a watchtower and hospital during the battle. The museum will feature exhibits describing the first day of the battle, Civil War–era medicine and battlefield hospitals, local religious life, and the African American culture in the region at the time.

PNC served as a one-stop shop — an investor and lender that had the financial expertise and commitment to bring this large-scale project to fruition in a rural area where such complex initiatives tend to be rare and, because of that, the technical experience tends to be limited as well.

A One-of-a-Kind Initiative with a First-of-Its-Kind Financing Solution

This project was particularly complex because it included large capital needs, a number of supporting organizations, and a desire to link the opening of the museum to next year's commemorative celebrations.

The total cost of the project was $16,349,428. This is inclusive of placement and professional fees and included the following partners:

- The Seminary Ridge Historic Preservation Foundation (SRHPF) is a wholly owned subsidiary of the LTSG, which served as the project sponsor, developer, and co-borrower.[1]
- The Commonwealth Cornerstone Group (CCG) was created by the Pennsylvania Housing Finance Agency and certified as a community development entity (CDE) by the CDFI Fund; the CCG received a $14,450,000 allocation of new markets tax credits (NMTCs).

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From left to right are the Lutheran Theological Seminary at Gettysburg's Valentine Hall, which contains administrative offices and classrooms; Schmucker Hall, which is being restored and converted into the Seminary Ridge Museum; and a chapel, which is officially called the Church of the Abiding Presence.

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[1] The Seminary Ridge Historic Preservation Foundation and the Lutheran Theological Seminary of Gettysburg were the co-borrowers for this transaction.

The Lack of Gap Funding for Affordable Rental Housing Projects*

By Matthew Sternberg, Executive Director, and Michael Urenovitch, Program Manager, Redevelopment Authority of the County of Lancaster, Pennsylvania

Reductions in the Traditional Sources of Gap Funding

Since 1986, a majority of affordable rental housing projects have been financed using the low income housing tax credit (LIHTC), which provides either a 9 percent or 4 percent credit against federal income tax liability. The proceeds from the sale of the tax credits to investors provide equity for the project. The 9 percent credit is viewed as more desirable because of its higher value, but there is intense competition to obtain the credit. The 4 percent credit produces less equity but is available without the need to compete for it if the project uses tax-exempt multifamily bonds.

For most projects, the combination of bank financing and tax credits still results in a budget gap. Historically, two federal sources — the Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships (HOME) Program — have been widely used to try to close this gap. Both of these programs are administered by the United States Department of Housing and Urban Development (HUD).

Closing the funding gap has become more difficult in recent years. As more funding is being sought, two problems have arisen simultaneously. First, in many states the competition for the 9 percent tax credits now far outstrips the allocation of credits available. Therefore, many worthy projects are delayed for years and often fail to obtain credits. Second, HUD budget cutbacks have reduced the funds available to fill in the gaps.

Over the past eight years, most HUD entitlement jurisdictions have experienced reductions in their CDBG and HOME allocations. This is true in Lancaster County, Pennsylvania, as well as in other counties across the country. In 2004, Lancaster County received $4,057,000 in CDBG funds and $1,507,922 in HOME funds (see Figure 1). In 2012, Lancaster County received $2,508,661 in CDBG funds, a 38.2 percent reduction from 2004, and $834,992 in HOME funds, a 44.6 percent reduction from 2004 (see Figure 2).

In the past, the state of Pennsylvania was also an important source of gap funding. However, because of program restructuring and budget cuts, many of the state's programs have been consolidated or eliminated, severely limiting funds available for affordable housing projects.

An Innovative Approach to the Gap Funding Challenge

In response to the reductions in gap funding, Lancaster County is exploring the use of tax-exempt multifamily

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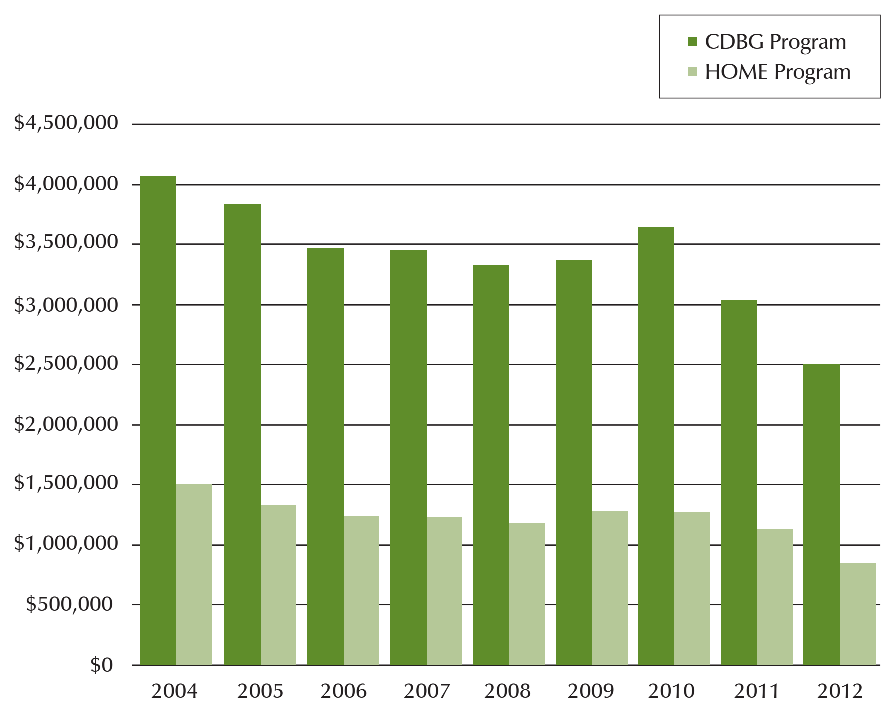
Figure 1
2004–2012 CDBG/HOME Funding



Source: HUD Allocations to Lancaster County, PA, 2004-2012

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Groundbreaking Deal Preserves 376 Affordable Housing Units*

By Amy B. Lempert, Community Development Advisor and Outreach Coordinator

If you were to ask Michael Carper "How do you preserve 376 units of affordable housing?," he would probably tell you to first get control of the 376 units. As president of the Housing Development Corporation (HDC) MidAtlantic (formerly the HDC of Lancaster County), Carper and his team of development officers and analysts, project managers, and property management and compliance experts did just that. In January 2012, the HDC MidAtlantic refinanced 376 affordable rental units in seven properties located in Lancaster, Berks, and Dauphin counties in Pennsylvania. The consolidation of properties under one ownership enabled a $26 million refinancing, which lowered debt service and provided $8.4 million for renovations. This transaction is believed to be the first of its kind in Pennsylvania.

An experienced nonprofit developer of affordable rental housing, the HDC MidAtlantic has developed and currently manages more than 3,100 affordable rental units in 11 counties in central and northeastern Pennsylvania. When several properties that were either built or renovated using federal low income housing tax credits (LIHTCs) came close to the end of the 15-year compliance period, the HDC MidAtlantic started looking at ways to update the units and preserve affordability. The HDC MidAtlantic's goal was to make sure that the units remained affordable. "I looked at this transaction as a preservation effort," explained Carper. "These properties are in strong rental markets where local investors would scoop them up at the right price." Moreover, the refinancing provided funds for the HDC MidAtlantic to develop handicapped-accessible units as well as make energy-efficient improvements to generate additional savings.

The Lancaster County Housing and Redevelopment Authorities (LCHRA), which had originally financed some of the properties, suggested to the HDC MidAtlantic the idea of refinancing multiple properties as one project using tax-exempt multifamily housing bonds. One of the attractions of this type of private activity bonds is that once the Pennsylvania Housing Finance Agency approves their use, the project automatically becomes eligible for the 4 percent LIHTC. "The economy of scale gained by the large size of this transaction is what made it a good candidate for bond financing," explained Matthew Sternberg, executive director of LCHRA. "In Lancaster County, we have a number of large, affordable rental housing developments that could feasibly be refinanced with multifamily housing bonds. The legal and accounting costs of bond financing make it necessary to spread these costs over a large number of units, and the developer needs latitude in selecting properties to bundle together. This is where our ability to reach into neighboring counties really helped."

"Working with the limited partner equity investors was the easy part," said Carper. They are sophisticated investors that understood the benefits and compliance requirements from the beginning and had calculated their exit gains and costs at the outset. Once a project reaches the end of its 15-year compliance period, investors typically no longer have an economic interest in the property. The original limited partner investors in all seven projects agreed to transfer their interest to the HDC MidAtlantic, which was the general partner in each project. Enterprise Community Investment, Inc., a nationally well-known syndicator of LIHTCs, purchased all of the tax credits awarded to the new transaction, thus becoming the sole limited partner.

Another challenge in refinancing was that all of the properties had public money — the Community Development Block Grant Program, the HOME Investment Partnership Program, county trust funds, and other sources with various self-amortization structures and use restrictions — invested in them. Working with each municipality and with staff and elected officials who were frequently not familiar with the original project development took a lot of time and persistence on everyone's part. Orchestrating the refinancing of each of these seven properties at the same time was a daunting task, according to Carper. The HDC MidAtlantic worked on this refinancing from the summer of 2011 until closing on January 31, 2012.

One might expect that the actual underwriting of the project refinancing would also be a major challenge, but that was not so much the case as one might think, according to

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Meet Our New Staff Members

Theresa Y. Singleton has joined the Philadelphia Fed as vice president and community affairs officer of the Community Development Studies and Education (CDS&E) Department. She is one of four new CDS&E staff members.

Singleton had been director of research and information for the past nine years at the Housing Assistance Council (HAC), a community development financial institution that provides loans, technical assistance, and research to nonprofits around the country that work to improve housing conditions for the rural poor.[1]

In that position, Singleton was responsible for the council's research and information activities, including overseeing the communications and public relations functions and developing and managing the annual research agenda. She also directed and contributed to research and information products that examined demographic trends, assessed policy impacts, and developed recommendations for rural communities.

Singleton joined HAC in 1999 and also held positions there as senior research associate and research associate. Singleton headed a research study, *Continua of Care Best Practices: Comprehensive Homeless Planning in Rural America*,[2] that led to a Rural Homelessness Capacity Building initiative. The initiative was developed by HAC and the National Alliance to End Homelessness to improve the capacity of rural nonprofits to serve homeless populations.

In addition, Singleton served as a research associate at the Association for the Study and Development of Community. She also taught undergraduate courses on the American political system at Temple University and Widener University. She received bachelor's, master's, and Ph.D. degrees in political science from Temple University.

Singleton grew up in Hamilton Township, New Jersey, a Trenton suburb that she remembers as an economically and ethnically diverse family-oriented community and "a great place to grow up." She lived several blocks from Trenton and remembers being aware of the city's disparities and needs.

Singleton is interested in the implementation of federal and state housing and community development programs in low- and moderate-income (LMI) communities. She is also interested in strategies that help community development nonprofits to increase their capacity and to be "conduits of change." Her other interests include asset-building, workforce and small business development, and the needs of the unbanked. She strives to be an "effective connector" between the Philadelphia Fed and LMI communities.

The other three new CDS&E staff members have expertise in quantitative analysis and are investigating housing and community economic development issues concerning LMI individuals and communities.

Keith Wardrip joined CDS&E as a community development research specialist. He has been analyzing credit usage and debt levels in LMI communities. He recently edited a report on 13 small formerly industrial cities in the Third Federal Reserve District written by Alan Mallach, a visiting scholar.[3] Wardrip is also developing a "dashboard" that is expected to go online later this year. The dashboard will eventually include credit data, Home Mortgage Disclosure Act (HMDA) data, and home mortgage delinquency rates. He will also be updating CDS&E's study on *Affordability and Availability of Rental Housing in Pennsylvania*.[4]

Wardrip previously analyzed large public data sets to identify LMI affordable housing challenges for

[1] Since its inception in 1971, HAC has made 2,200 loan commitments totaling more than $285 million, funding 53,298 affordable homes and 14,479 water/wastewater connections in hundreds of rural communities in the U.S., including communities in Puerto Rico and the U.S. Virgin Islands. HAC is based in Washington, D.C. See http://www.ruralhome.org/about-hac.

[2] See http://www.ruralhome.org/storage/documents/continua.pdf.

[3] See http://www.philadelphiafed.org/community-development/publications/special-reports/small-cities-in-third-federal-reserve-district.pdf.

[4] See http://www.philadelphiafed.org/community-development/publications/special-reports/rental-housing/index.cfm.

the National Low Income Housing Coalition and the Center for Housing Policy (CHP). He provided data for CHP's 2012 housing landscape[5] and analyzed housing and transportation costs and the affordable housing needs of older adults. Wardrip grew up in Louisville, KY, and received a bachelor's degree in geography from the University of Kentucky and a master's degree in geography with an emphasis on urban studies from the University of Colorado.

New staff members in the Philadelphia Fed's Community Development Studies and Education Department are Theresa Y. Singleton, vice president and community affairs officer; Thomas Hylands, community development research analyst; Daniel Hochberg, community development senior research assistant; and Keith Wardrip, community development research specialist.

Daniel Hochberg, community development senior research assistant, analyzes data for CDS&E's longitudinal study on the effectiveness of homeownership counseling. He also manages CDS&E's quarterly Community Outlook Survey (COS) of organizations serving LMI individuals.[6] Most Reserve Banks are conducting a survey similar to the Philadelphia Fed's COS or are planning to start one.

Hochberg grew up in McLean, VA, and received a bachelor's degree in economics from Haverford College. He was a pitcher on the Haverford varsity baseball team, which in 2011 set a school record for most wins in a season (32).

Thomas Hylands, community development research analyst, examines home mortgage lending trends in LMI communities. He is currently using HMDA data to identify mortgage lending patterns in LMI communities. Hylands is also exploring ways to enhance community profiles and will be providing assistance on the homeownership study.

Hylands, who grew up in Harrogate, 200 miles north of London, England, received a bachelor's degree in economics and political science from the University of North Carolina. He conducted economic modeling and literature reviews on obesity for RTI International in Research Triangle Park, NC. He received a Fulbright research scholarship to study the links between social policy and obesity as part of a master's degree in political science at VU University Amsterdam in the Netherlands.

–Keith L. Rolland

[5] See http://www.nhc.org/media/files/Landscape2012.pdf.

[6] See http://www.philadelphiafed.org/community-development/community-outlook-survey/.

CDFI Adapts to Small Business Credit Challenges*

By Keith L. Rolland, Community Development Advisor

The Cooperative Business Assistance Corporation (CBAC), a Camden, NJ–based nonprofit business lender marking its 25th anniversary, sees first-hand the adverse effects of the recession on the small business sector in southern New Jersey and Philadelphia.

Harry W. Stone, a certified public accountant who became CBAC's executive director after serving as its director of lending since 1999, said in May that "many small businesses in our community, particularly closely held 'mom-and-pop' businesses,[1] continue to struggle and are experiencing ongoing challenges to their economic stability." He said that small businesses in South Jersey, especially those in the retail, service, and manufacturing industries, are facing lower revenue and profits and a slower recovery than many larger businesses. As a result, many businesses must take significant steps to maintain their viability, often including a reduction in the number of their employees.[2]

Stone observed that "the owners are doing the right things in terms of operating and marketing their businesses, but the demand for their products and services is no longer there the way it was before the latest recession." CBAC's loan demand has grown largely due to increased demand for working capital financing to support borrowers' cash flow needs.

The challenging economy has made it necessary for CBAC to be more prudent in its credit underwriting process and to obtain additional guarantors and collateral when possible, Stone explained. CBAC has experienced a rise in loan delinquencies and has increased its technical assistance and site visits with borrowers.

CBAC, which became a community development financial institution (CDFI) in 2003, uses credit history but not credit scores and relies on referral relationships with banks, chambers of commerce, and nonprofits for marketing exposure and new loan application generation.

CBAC partners with a dozen banks in funding loan requests from small businesses in Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Philadelphia, and Salem counties.[3] Typically, a participating bank finances 75 percent of a deal, while CBAC funds the remaining amount. CBAC draws on a dozen sources for its portion, including the New Jersey Economic Development Authority, USDA Rural Development, and county programs. The loans are made to service, retail, and manufacturing businesses for owner-occupied commercial real estate, equipment, or working capital.

"CBAC's loan is always subordinate to the bank loan, reducing the bank's risk exposure, often allowing for more flexibility on rate and terms, and giving the borrower a more attractive overall loan package," Stone said.

CBAC is also active in using the U.S. Small Business Administration's (SBA) microloan program in its seven-county southern New Jersey region and in Philadelphia. CBAC borrows loan capital from the SBA and makes loans up to $50,000 for up to six years to retail, service, and manufacturing businesses. A typical borrower uses the loan for multiple purposes: working capital, equipment, and inventory. Borrowers can be start-ups or existing businesses.

CBAC closed 134 loans totaling just over $5 million in the fiscal year ended June 30, 2011, a record year in both its number of loans and dol-

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1 Stone defines "mom-and-pop" businesses as closely held businesses with annual revenues of up to $250,000 and fewer than 10 employees.

2 New Jersey's seasonally adjusted unemployment rate was 9.1 percent in April 2012, above the national average and the highest among the states of Pennsylvania, New Jersey, and Delaware.

3 The banks include Bank of America; Citizens Bank; Colonial Bank, FSB; Columbia Bank; Fulton Bank of New Jersey; PNC Bank; Republic Bank; Sun National Bank; Susquehanna Bank; TD Bank, N.A.; and Wells Fargo.

lar amount. In the prior fiscal year ended June 30, 2010, CBAC closed 76 loans totaling slightly more than $2.7 million. CBAC has about 370 outstanding loans totaling almost $14 million.

CBAC is the largest New Jersey lender, and one of the nation's largest lenders, in the SBA microloan program. CBAC made 79 SBA microloans totaling $1.5 million, with the average loan being about $16,000 in the year ended September 30, 2011.[4]

CBAC began making SBA microloans in Philadelphia in 2009 in response to requests from the SBA and Philadelphia banks. It has closed 22 such loans totaling almost $500,000. The majority of the loans were in the retail and service sectors, with the average loan just above $21,000.

CBAC manages 23 different federal, county, and city small business loan programs. Each CBAC loan program has a defined geographic area for business eligibility and often has different underwriting and eligibility criteria.

CBAC has nine employees, including six former bankers.

For information, contact Harry Stone at 856-966-8181 or hstone@cbaclenders.com; http://www.cbaclenders.com/home.html.

[4] The SBA's reporting period for microloans at the time was October 1 to September 30.

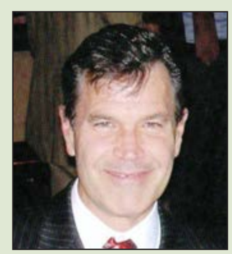
In Memoriam

Cascade remembers two leaders of community development financial institutions (CDFIs) in Delaware and New Jersey who died in February 2012 within a week of each other.

Doris R. Schnider, president of the Delaware Community Investment Corporation (DCIC) from 1994 to 2011, died February 7, 2012. She originally came to Delaware as a consultant and organized the DCIC as a multibank lending and equity investment consortium. She had previously run similar consortia, SAMCO in California and the North Carolina Community Investment Corporation.

During her tenure at the DCIC, Schnider created or preserved 5,422 affordable housing units in Delaware through loans and investments totaling about $354 million. Of this amount, the DCIC raised over $180 million in equity that it deployed in 44 developments, producing 3,000 rental units. The DCIC also financed charter schools and nonprofit-sponsored ventures for the rehabilitation of theaters and art centers.

Schnider received several awards, including the Wilmington Award and the National Association of Affordable Housing Lenders' Star Award.



R. Michael Diemer, executive director of the Cooperative Business Assistance Corporation (CBAC), died February 2, 2012. He joined CBAC in 1995 when CBAC provided loans and technical assistance to small businesses in Camden, NJ. During his tenure at CBAC, which became a CDFI in 2003, Diemer expanded the organization's lending and technical assistance to seven counties in New Jersey.

Before he joined CBAC, Diemer was a commercial lender with banks in Maine, Vermont, and New Hampshire. Earlier, from 1969 to 1987, he had been a district director for Farmers Home Administration (now USDA Rural Development) in Vermont. In this position, he monitored a $500 million portfolio and supervised 52 staff members in 10 offices.

Diemer was a past president of the South Jersey Chapter of the Risk Management Association and was a chairman of the advisory board of the Camden division of the Camden County Regional Chamber of Commerce.

–Keith L. Rolland

The DCIC Charts a New Course*

By Keith L. Rolland, Community Development Advisor

The Delaware Community Investment Corporation (DCIC) is engaging in a strategic planning project over the next year to chart its future. Formed in 1994 and certified as a community development financial institution (CDFI) in 1999, it has 35 investors, including limited purpose, wholesale, and full-service banks, as well as other nonbank investors in the equity business.

James M. Peffley, DCIC's president, said, "We want to take a fresh look at community needs and the community development marketplace to determine how we should position the organization. We're going to challenge and stretch ourselves to expand DCIC's impact in Delaware and counties close to Delaware in Pennsylvania, New Jersey, and Maryland.[1] We plan to build our CDFI lending operation to further diversify the organization's financing products and expand partnership opportunities with our member banks.

"In addition, we want to bring new ideas and best practices from other parts of the country to our market. The demand for viable CRA investments in Delaware is great, and one of our goals is to work creatively with public, private, and nonprofit sector partners to expand CRA investment opportunities in Delaware and the surrounding communities."

The DCIC has formed a planning committee that includes representatives from Barclays Bank; Citi; JPMorgan Chase Bank, N.A.; M&T Bank; PNC Bank; Wells Fargo Bank, N.A.; and WSFS Bank. It plans to hire a consultant to further its planning work.

Peffley joined the DCIC last year after working at Fannie Mae since 2002, most recently as director of strategic customer management and affordable lending. Earlier, he was senior business development manager of Fannie Mae's Public Entities group. In this position, he helped develop the U.S. Treasury's New Issue Bond Program (NIBP) and Temporary Credit and Liquidity Program (TCLP), two programs launched in 2009 that provided an important source of capital at a time of constriction in capital markets for affordable multifamily and single-family lending.[2]

From 1991 to 2002, he worked for the Delaware State Housing Authority as housing finance director and cash and debt manager. Earlier, he held positions as an analyst with two financial institutions in Delaware.

For information, contact James M. Peffley at 302-655-1420 or jpeffley@dcicnet.org; http://www.dcicnet.org/home.htm.

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[1] The DCIC has provided financing to two affordable housing rental projects outside Delaware: a 65-unit development in Concord Township, PA, in 2002, and a 70-unit development in Elkton, MD, in 2003. The DCIC provided a $3.3 million equity investment and a $900,000 loan for the Pennsylvania development and a $3.5 million equity investment and a $1.6 million loan for the Maryland development.

[2] The NIBP provided capital to finance over 200,000 units of affordable homeownership and rental housing. The TCLP provided replacement liquidity facilities that enabled housing finance agencies with variable rate debt to protect their balance sheets during a period of significant market stress.

Call for Papers

The Community Affairs officers of the Federal Reserve System invite paper submissions for the eighth annual *Federal Reserve Community Development Research Conference*, to be held April 11–12, 2013, in Washington, D.C. The theme of this year's conference is "Resilience and Rebuilding for Low-Income Communities: Research to Inform Policy and Practice."

Individuals interested in presenting their research at the conference should submit abstracts or completed papers (which will receive preference) by September 15, 2012.

For information, contact Karen Leone de Nie at karen.leonedenie@atl.frb.org; http://www.frbatlanta.org/documents/commdev/research_conf_2013_call_for_papers.pdf.

FINANCIALLY HARMED IN THE FORECLOSURE PROCESS?

The Federal Reserve and the Office of the Comptroller of the Currency have initiated enforcement actions against a group of mortgage servicers because of deficiencies in the servicers' foreclosure processes. The regulators are encouraging borrowers who were financially harmed in the mortgage foreclosure process in 2009 and 2010 to request an independent review. After the review, servicers may be required to provide compensation. You have until September 30, 2012, to submit your request.

Details at https://independentforeclosurereview.com

Photograph: iStockphoto

SPOTLIGHT ON RESEARCH

The Distributional Impact of Negative Equity*

The fallout from the recent meltdown in the housing market continues to afflict many homeowners today. A great deal of attention has been focused on the debilitating effects of a rise in foreclosures and falling house prices that accompanied the market downturn. The depressing effect of foreclosures on house prices has presented several challenges to homeowners. Declining home values have resulted in a number of homeowners owing more on their mortgage than their home is worth. Thus, the homeowners are saddled with negative equity, which is commonly referred to as "being under water." Accordingly, negative equity might make it difficult for some homeowners to sell their house or lead to defaulting on their mortgage, resulting in foreclosure. Another consequence is that homeowners lose a valuable source of wealth — equity in their house.

The prevalence of homeowners with negative equity coupled with the incidence of foreclosures adversely affects the stability of communities. In assessing the viability of communities, it is instructive to know if some communities have a disproportionate number of homeowners with negative equity. A recent study by Spencer Cowan and Katie Buitrago sheds some light on this concern.[1]

Background

Cowan and Buitrago pointed out that the large drop in house prices nationwide is due, in part, to a large number of foreclosed properties listed for sale at auction at discounted prices. Moreover, foreclosed homes, especially vacant properties, can lead to blight and higher levels of crime that further reduce property values, which result in more homeowners with negative equity. According to the authors, more than 11 million homes nationwide have negative equity totaling $717 billion.

The presence of homes with negative equity in a community can be a destabilizing force. Cowan and Buitrago maintained that "negative equity is a significant driver of foreclosure." As such, negative equity can create a cycle in which more concentrated foreclosures exacerbate the decrease in property values of neighboring homeowners, thus leading to additional foreclosures. The authors also discussed some of the characteristics of mortgages that tend to have negative equity and their detrimental effects. They noted "one study found that 80 percent of nonprime borrowers with payment-option Adjustable Rate Mortgages (ARMS) and 75 percent of nonprime borrowers with short-term hybrid ARMS had negative equity in their homes, compared to 39 percent of nonprime borrowers with fixed-rate mortgages."

Cowan and Buitrago hastened to add that not all homeowners with underwater mortgages will default — particularly those who are able to make their monthly payments. However, those with a loan-to-value (LTV) ratio exceeding 110 percent are more likely to default. They cited a report that found that "homeowners with LTV ratios exceeding 150 percent were seven times as likely to go into foreclosure than homeowners with some equity in their homes."

The authors also pointed out that the presence of negative equity can exert an adverse influence on homeowners seeking relief from foreclosure prevention programs. They noted that "one study examining subprime mortgagees who received loan modifications estimated that a homeowner with negative equity is one-quarter as likely to re-default on his or her loan modification if the modification includes a reduction of mortgage principal."

Cowan and Buitrago further indicated that foreclosure is not the only deleterious outcome of negative equity. They observed that "even when negative equity does not result in default

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* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

[1] Spencer Cowan and Katie Buitrago, "Struggling to Stay Afloat: Negative Equity in Communities of Color in the Chicago Six County Region," Woodstock Institute, March 2012.

and foreclosure, it can reduce neighborhood wealth and stability and limit opportunities for homeowners to use home equity to finance retirement, higher education, or entrepreneurship." Furthermore, research has shown that those with underwater mortgages are less likely to devote the necessary resources to maintain their property, which, in turn, can lead to neighborhood deterioration.

As mentioned earlier, negative equity represents a loss of wealth. This is noteworthy since "more than half of the net worth of Latinos and African Americans in 2009 was attributable to home equity, compared to 38 percent for whites." Consequently, Cowan and Buitrago suggested that the manner in which negative home equity is distributed across different segments of the population can have profound effects on their economic security, especially those least able to offset the blow from the loss in wealth. Similarly, communities with a disproportionate level of homeowners with negative equity and its related consequences might be subject to destabilization. The authors investigated these possibilities.

Data and Area of Study

Cowan and Buitrago focused their analysis on "patterns of negative equity in communities of different racial and ethnic compositions in the Chicago six county region." The authors used "proprietary data on home equity, property values, and outstanding mortgage debt on residential properties in the Chicago six county region as of the end of 2011. The data classify properties with mortgages based on the LTV ratio, aggregated by ZIP code. Within each zip code and LTV range, the data include the number of parcels with mortgages, total home value, total dollar amount of outstanding mortgage debt, total number of mortgages, and total amount of equity." They merged these data with Zip Code Tabulation Areas data on racial and ethnic composition from the 2010 U.S. census. This allowed them to examine the impact of negative equity in communities of color in the study area.

Results

Cowan and Buitrago's analysis yielded the following key findings:[2]

- Nearly one in four residential properties in the Chicago six county region is underwater, with just under $25 billion of negative equity.
- Almost half of the properties in communities of color are underwater or nearly underwater.
- Almost one-third of the loans in communities of color are severely underwater.
- Only about one-third of homeowners in communities of color have significant equity in their homes.

Policy Recommendations

The main outcome of the authors' analysis was that "negative equity and its associated impacts are highly concentrated in the Chicago region's communities of color." They further demonstrated that the "destabilizing effects of negative equity include increased likelihood of foreclosure, property disinvestment, diminished returns from foreclosure prevention programs, and decreased family and neighborhood wealth." Cowan and Buitrago voiced concern that communities of color with a concentration of these factors would face difficult challenges to achieve economic recovery and neighborhood stabilization. They offered the following recommendations to address this issue:

- *More use should be made of principal reduction by mortgage servicers as a foreclosure prevention instrument.* The authors noted that servicers typically modify troubled mortgages by lowering payments through reducing interest rates or extending the loan terms. Cowan and Buitrago pointed out that these measures might be appropriate for borrowers with issues of affordability, but they may not provide adequate relief to underwater homeowners trying to avoid foreclosure. These homeowners might be better served with a principal reduction loan modification.
- *The Federal Housing Finance Agency should allow the use of principal reductions on loans backed by Fannie Mae and Freddie Mac.* The authors noted that Fannie and Freddie manage "60 percent of all loans serviced." However, since the conservator of these two institutions does not allow principal reduction on loans that they back, many underwater borrowers are denied a principal reduction modification, even if it could avert foreclosure.
- *The process for short sales should be streamlined.* While short sales can be beneficial to underwater homeowners and servicers (by avoiding the cost of a foreclosure), the authors observed that these sales take a long time to complete, which can serve as a deterrent to prospective buyers.

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

[2] The key findings are taken from the Cowan and Buitrago article. For more on these findings, see the article.

Nonprofit Focuses on Employment Training and Business and Community Development ...continued from page 1

- was instrumental in the development of Aramingo Crossings, a 25-acre $45 million shopping center built on a vacant industrial site that created over 600 jobs;
- launched the Aramingo Business Association in 2005 and currently manages this association and the Kensington and Allegheny Business Association, which together have 148 retail business members; and
- started a business improvement district on Aramingo Avenue in 2008 in response to owners' concerns for better security and cleaner streets.

In 1900, Kensington was a thriving community with many factories and textile plants, but the area declined precipitously in the 1960s due to the closing of manufacturing and textile factories and out-migration of families to new suburban communities.

According to the latest data, the area has a population of 38,324 and an unemployment rate of 22.3 percent. Fifty-seven percent of households have incomes below $25,000, and 40 percent of households are female-headed families with no husband present.[2]

Employment and Training

Established as one of the first programs in the Ford Foundation's national supported work demonstration,[3] Impact provides assessment, case management, work readiness skills, and post-employment support. Employers with which Impact works generally prefer to train employees for specific positions.

Of Impact's 146 staff members, 73 percent work in employment and training as case managers, teachers, administrators, peer counselors, and job developers.

Charles Jameson, Impact's manager of employment and training and director of one of the city's six Employment Advancement Retention Network (EARN) Centers,[4] said, "We connect well with the trainees and we connect well with the business sector. We also create a long-term career development path that these populations would not have through the general workforce development system."

Many of Impact's workforce development instructors have been unemployed or homeless, enabling them to relate well to their clients and serve as role models. MacDonald said, "They know first-hand what the people they're working with are going through."

Ex-offenders

Each year, about 650,000 prisoners return from federal, state, and local prisons to their communities, including approximately 35,000 prisoners who return to Philadelphia.[5] Since 1974, Impact has worked closely with ex-offenders coming out of the Philadelphia prison system. Getting and keeping a job gives them a sense of accomplishment and hope, MacDonald said.

From 2001 to 2004, Impact was one of six nonprofits that participated in Fathers at Work, a national demonstration funded by the Charles Stewart Mott Foundation that worked with noncustodial fathers who were ex-offenders to increase their employment and earnings, become more involved in their children's lives, and increase financial support for their children. Impact received an award from the Annie E. Casey Foundation for outstanding performance in the Fathers at Work initiative.[6]

MacDonald said, "Our success with Fathers at Work prompted us to in-

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[2] These statistics were obtained from census and American Community Survey data (analysis provided by Keith Wardrip of the Community Development Studies and Education Department).

[3] For an evaluation of the program, see http://www.mdrc.org/publications/316/abstract.html.

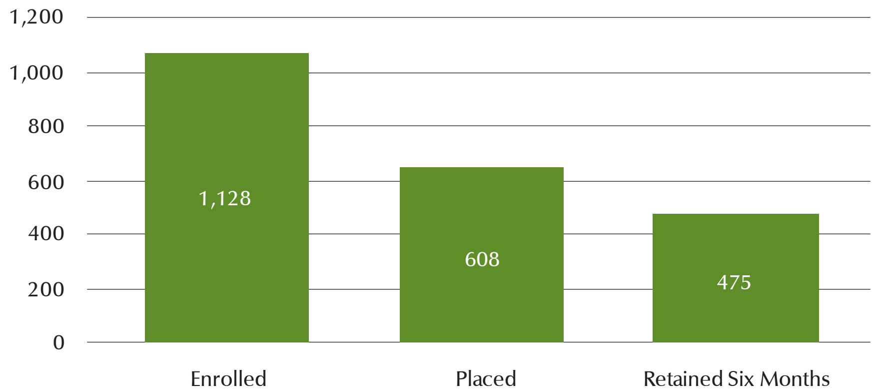
[4] One-stop centers were established nationwide under the Workforce Investment Act of 1998 to enable job seekers to obtain employment-related services at one location. The centers are known in Pennsylvania as CareerLink centers. In addition, the Pennsylvania Department of Public Welfare established one-stop EARN Centers starting in 2005 to provide employment-related services for women receiving Temporary Assistance to Needy Families (TANF). Impact operates one of the six EARN Centers in Philadelphia.

[5] See the Bureau of Justice Statistics, available at http://bjs.ojp.usdoj.gov/content/reentry/releases.cfm, and the Urban Institute, available at http://www.urban.org/publications/901171.html.

[6] According to Impact, it assisted 417 fathers, of whom 96 percent completed the program and 67 percent found full-time employment at an average wage of $9.17 an hour. Of the number who found employment, 74 percent were still working two years later. All the fathers met their child support obligations and only 7 percent were reincarcerated. For an evaluation of the program, see http://www.ppv.org/ppv/initiative.asp?section_id=0&initiative_id=8.

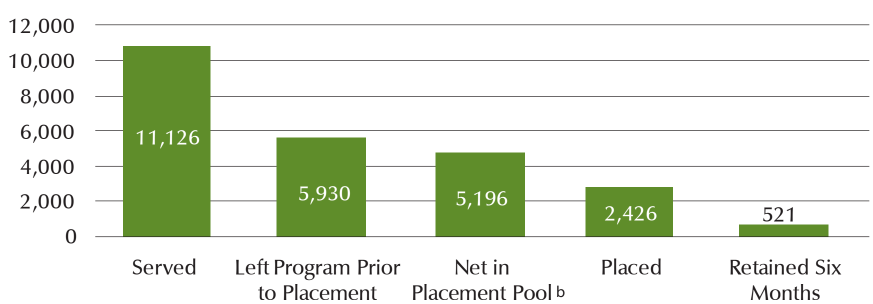
Figure

Veterans Programs 7/1/2009 to 4/30/2012



Ex-Offender Programs 7/1/2009 to 4/30/2012

TANF Programs 7/1/2009 to 4/30/2012



[a] Retention rates vary by program.

[b] The number of TANF participants available for placement is less than the number served because in Pennsylvania TANF rules allow participants to leave the program prior to the job placement phase for good cause or in limited cases (e.g., to pursue education and training); providers are also required to terminate participants for noncompliance. Program rules also affect retention rates: If an employed participant loses a job and is not replaced within 28 days, the retention 'clock' begins anew.

clude the whole family in our efforts to change clients' lives. Since then, we have worked more consciously to use powerful family forces to motivate disadvantaged adults to take risks and make the effort to get into the workforce and achieve."

From 2002 to 2004, Impact operated a Young Fathers Rising program for juvenile offenders who were non-custodial fathers. It won a national award for its innovative design from the Post-Secondary Education Program Network.

From 2003 to 2007, Impact provided 817 male and female inmates in the Philadelphia Prison System with pre-release job readiness skills and job placement and support services upon release. According to a report on the effort, known as the JOBS Project, Impact staff established positive relationships with inmates and found jobs for most ex-offenders who were interested in working. The 18 percent recidivism rate was extraordinarily low, the report noted.[7]

Impact also developed a First Step ID Program that enabled over 2,000 Philadelphia ex-offenders to obtain identification documents, usually a requirement for employment.

Women Receiving TANF

From 2005 to 2009, Impact managed the first EARN Center in Philadelphia. In 2008, at the request of the Pennsylvania Department of Public Welfare, Impact converted the EARN Center into a Social Employment Center and provided pregnant and new mothers with life skills and parenting classes, work readiness training, and community service projects.

[7] Final Report – Jackson v. Hendricks Oversight Committee, 2007.

In 2010, Impact took over a struggling EARN Center from another provider. The center has placed 522 individuals in jobs, the highest number of any of the six EARN Centers since the start of the contract year on July 1, 2011, according to Impact.

Veterans
In 1993, Impact received U.S. Department of Labor funding to launch one of the first programs serving homeless veterans. In 1995, Impact started a HUD-funded supportive housing program for homeless veterans.

In 2004, Impact developed a community-based program with the Philadelphia VA Medical Center to treat veterans who had dual diagnoses of mental health and substance abuse, one of the first such programs in the country.

From 2009 to 2011, Impact achieved a 75 percent retention rate when it tracked employment of veterans.

Business Assistance
A key part of Impact's employment and training strategy is to create a strong business environment that will attract and retain businesses and create opportunities for job seekers. Impact has organized business associations in different commercial corridors, starting with the American Street Business Association in 1992. Impact revitalized the defunct Kensington and Allegheny Business Association and has helped many owners address zoning, licensing, inspection, and parking issues.

MacDonald said the business owners "are almost like family." Impact's job developers and community development financial institutions (CDFI) staff regularly attend business association meetings to keep lines of communication open with the business community.

Impact has also provided employment by operating its own businesses in contracting, demolition, landscaping, home renovation, and archive records. Currently, it operates a document management business that employs eight individuals, and it manages the city-owned Walnut Lane Golf Course that employs up to a dozen individuals.

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Observations on Employment and Training at Impact Services*

John MacDonald, Founder, President, and CEO
Employment is at the core of what we do. It drives all of our other economic and community development efforts because we believe that work is good for individuals, families, and the larger community. The people we serve have real challenges; therefore, it takes time and resources not only to get them ready for work but also to help them stay on the job. These individuals need counseling, education, and training, as well as transportation, child-care services, clothing, stable housing, and help with even basic tasks, such as obtaining identification documents.

In a performance-based contract, there is a lot of uncertainty regarding how much we can earn, but we still need to meet our basic expenses, such as payroll, insurance, rent, and utilities. For a nonprofit, access to capital to carry those costs while trying to meet performance measures is tough. In addition, cash flow from public funding agencies sometimes becomes impeded because of funding cycles and interactions among different levels of government.

Hopefully, the experiences that we face will influence policymakers and help them to understand and support good programs. When people have limited skills and significant barriers, they need a lot of help to get and stay on track, but they can do it. Employers need to give individuals who have been involved in workforce development programs like ours a chance to prove themselves. Since its inception, Impact has hired over 150 individuals who might not have gotten a chance somewhere else, and they have turned out to be loyal and productive employees for Impact and for other employers when they moved on to other jobs.

Phyllis Martino, Director, Community Development
A funder that requires continuing evaluation, including from participants, encourages us to reflect on the lessons learned and to improve our processes. Foundations and private-sector funders are more evaluation-oriented than public-sector funders.

* The views expressed here are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System

The Wells Fargo Regional Foundation (WFRF) pushed us to perform at our highest level. The WFRF funded helpful technical assistance and got us standard evaluation tools and outside consultants.

Charles Jameson, Manager of Employment and Training and Director of an Employment Advancement and Retention Network (EARN) Center[a]
In the current fiscal environment, there's an emphasis on short-term performance goals and a lack of funding for the comprehensive and long-range services needed by at-risk populations. Funders require that we develop career plans for participants as part of assessment and planning, but our role generally ends once the participant is placed and has met the retention goals. The emphasis on immediate job placement is at odds with the concept of a workforce development path to success that takes a planned approach to education and training.

The primary barrier that many of the participants face in obtaining and keeping a job involves a lack of "soft skills," such as appropriate behavior, managing stress and conflict, and interpersonal communication. Helping participants understand and develop these behaviors requires intensive services.

Job seekers are differentiated by their assets and their barriers. For participants with extensive personal and family barriers, such as emotional, mental health, or addiction issues, the focus should be on life skills training, counseling, and therapy, and job placement should be postponed if not discounted altogether when the barriers are severe. Each individual needs a different path of services over a different length of time to become job ready.

Over the years, the emotional and mental health problems faced by many low-income individuals seem to have increased. Many participants' job readiness is compromised by the number of appointments they have with mental health agencies, issues that their children are experiencing, and the lack of support from day-care centers that no longer care for children who are ill or who have behavioral difficulties. Day-care and school concerns have become the most formidable barriers that participating parents face in finding employment because of the continual demand that these issues place on their time.

The workforce system does not currently have the capacity to track participant involvement through multiple programs, making it difficult to document career growth or employment stability over time. There are little data available to evaluate what works and what doesn't work, making it hard to make decisions about funding priorities and program design. The workforce development system in Philadelphia and Pennsylvania is not as cohesive or strategic as it is in some other regions. There are different workforce systems with different levels of services for different populations, such as women receiving Temporary Assistance to Needy Families (TANF), dislocated workers, and young people.[b] When participants access further education or training, it is often on their own and not the result of program support or planning.

Long-term success requires continued education, but we have not learned how to integrate education and job training with employment. We continue to focus on the jobs of today, rather than figuring out how to prepare participants for the jobs of the future.

In the best programs I've seen, the funder played a minimal role in the operation of the programs, and the primary focus was on outcomes. This allowed the programs to be more responsive and creative in meeting the needs of program participants.

The success of some of the best programs I've been associated with depended on staff members who were genuinely caring and committed to working with people. The increasing trend to make workforce development a profession with increased requirements for certifications lessens the opportunities for these individuals to be involved in workforce development programs.

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[a] Jameson joined Impact in 1980, left in 1992 to work with a national for-profit employment and training organization, and then returned to Impact as a consultant in 2003. He became a full-time employee in 2005.

[b] Impact contracts with city, state, and federal agencies with varying time frames and contractual requirements. Impact has separate departments, reflecting separate funding streams, that serve veterans, ex-offenders, and TANF recipients.

This document management business, which employs eight individuals, is one of the businesses that Impact Services has operated during the past three decades.

Impact has a CDFI, launched in 1999, that provides business loans of $3,000 to $100,000 in Kensington and surrounding neighborhoods for the purchase of equipment, inventory, leasehold improvements or repairs, or working capital. The CDFI has made 23 loans totaling $459,000 to 18 firms, creating or retaining 554 jobs, according to Impact.

Community Development

Aramingo Crossings, Impact's latest major community development project, opened in 2010 and includes a Walmart, Lowe's, and other retail stores. Impact used a federal grant to make a five-year $600,000 loan to the project developer. As a result, Impact joined the development team and ensured that low-income individuals could compete for jobs created by the project, according to Impact staff.[8]

In 2005, Impact developed a comprehensive revitalization plan for the Kensington area following a year-long process that included focus groups and 135 community events. The Wells Fargo Regional Foundation provided funding for the plan and partial funding for its implementation and has been a key partner of Impact.[9]

Impact has acquired and renovated three vacant industrial sites:

- In 1981, it renovated a vacant carpet factory and started a records archive business that has since been sold. Today, the building provides housing for 76 veterans and contains offices of veterans' agencies.
- In 1997, it acquired the building of a vacant defense electronics manufacturer and renovated the building to serve as Impact's headquarters and the location of its employment and training programs.
- In 1998, Impact acquired a former billboard factory to expand the archives business, create a child-care facility, and operate a building materials exchange.[10]

Also active in housing, Impact helped to develop The Twins at PowderMill, a 50-unit homeownership brownfields development aimed at revitalizing parts of Frankford and Juniata Park. Completed in 2010, the project was the largest homeownership development in this section of Philadelphia in 30 years. In other activities, Impact acquired a vacant YWCA and helped to develop 46 apartments, weatherized over 4,000 homes, and repaired basic systems in over 200 homes.

In addition, Impact operates a building materials exchange that helps over 1,200 low-income homeowners annually to maintain and improve their houses by providing them with new and donated building materials at a modest cost.

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[8] About 20 percent of Impact's $10 million budget for 2011–12 is generated from its development projects and fees from business associations and the business improvement district, MacDonald noted.

[9] For further discussion of Impact's work, see Lois W. Greco, Margaret Grieve, and Maggie McCullough, "Paradigm Shift: A Foundation/Grantee Partnership Using Data to Drive Neighborhood Revitalization and Assess Impact," 2010, available at http://tinyurl.com/793zg45.

[10] Impact is currently performing pre-development work to expand the child-care center and develop a commercial kitchen that would provide meals for 22 child-care centers.

In 2005, Impact developed a comprehensive revitalization plan for the Kensington area following a year-long process that included focus groups and 135 community events. The Wells Fargo Regional Foundation provided funding for the plan and partial funding for its implementation and has been a key partner of Impact.

The Twins at PowderMill, a 50-unit homeownership project developed in 2010 with assistance from Impact Services Corporation, was the largest homeownership development built in Philadelphia's Frankford–Juniata Park community in 30 years.

In other community development work, Impact has led the turnaround of drug-infested McPherson Park by providing better lighting, police cameras, and bicycle patrols. In addition, Impact supports several community events, including the annual K&A Market Fest, now in its 11th year, which brings residents together for music, food, and attractions; a weekly entertainment event that includes movies and karaoke in Kensington community parks; and an extended summer program for almost 900 youngsters.

In 2002, Impact sponsored the First Philadelphia Preparatory Charter School, with a focus on character education and academic excellence for over 700 students from kindergarten through 9th grade. A state-of-the-art facility opened in 2004 and a 700-seat theater was added in 2008.

Impact also started the First Tee of Greater Philadelphia, a national youth development program that teaches golf and life skills to young people who are six to 18 years of age. The program works with 5,800 youths during the school day, after school, and during the summer and has been expanded to the Philadelphia metropolitan statistical area. MacDonald is the program's executive director.

Impact is challenged by declining public funding for social services and employment programs and a growing need for services. The agency sees potential for continued economic development in the Kensington area that will expand Impact's business relationships and create employment opportunities for area residents. MacDonald said, "Building on its long history, Impact will explore new ways to harness its entrepreneurial capacity to create jobs for the hardest to serve and to generate revenue in support of the agency's mission."

For information, contact John MacDonald at 215-739-1600 or jmacdonald@impactservices.org; http://www.impactservices.org/about/index.php.

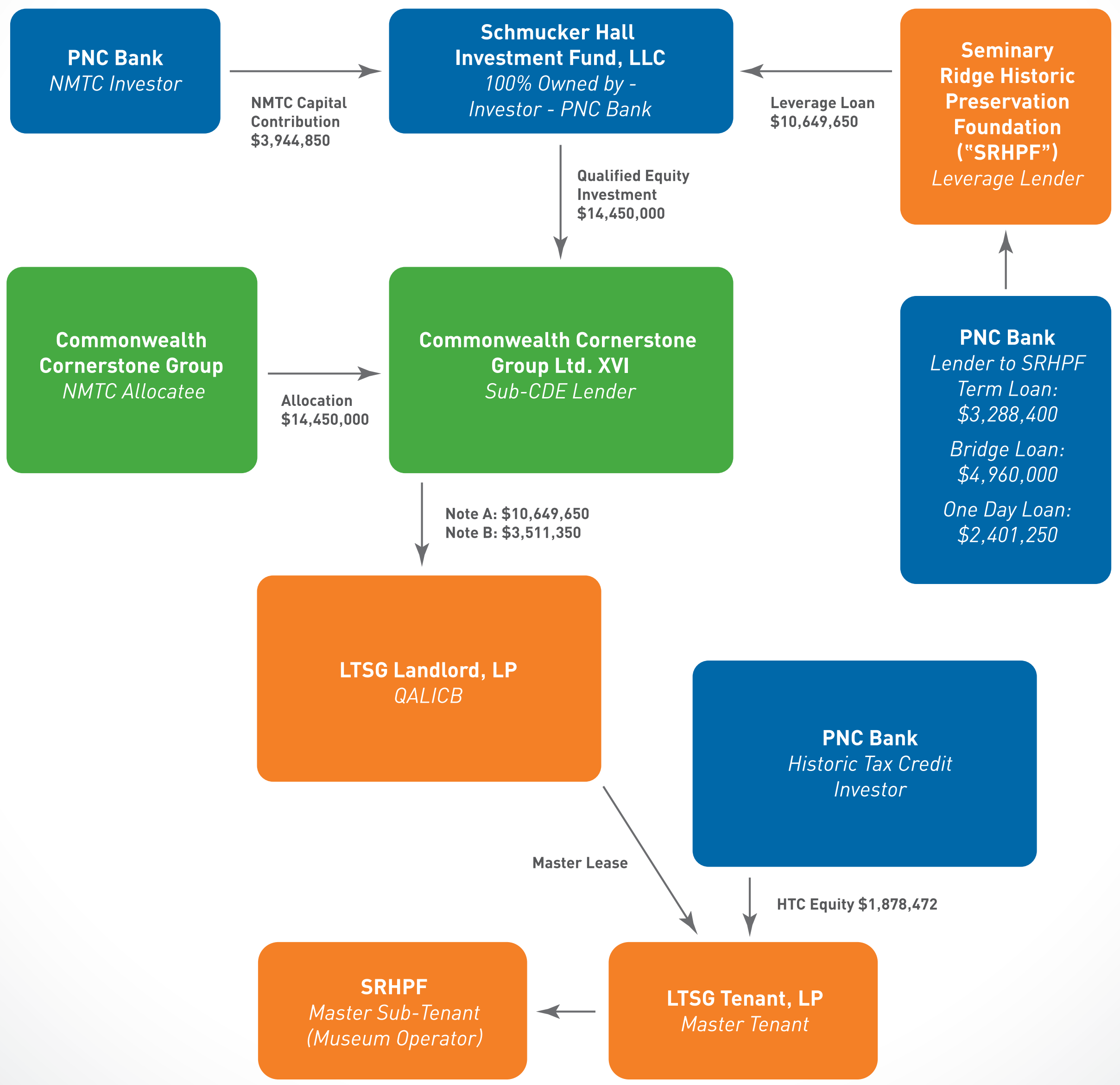
PNC Leverages New Markets Tax Credits in Rural Project

...continued from page 3

NMTC Flow of Funds

Seminary Ridge Museum, Gettysburg, PA

Legend:
- = NMTC Investor
- = Sponsor and Project Developer
- = NMTC Allocatee



- PNC purchased both NMTCs and historic preservation tax credits and provided SRHPF with four loans totaling over $10 million, including a $2,401,250 one-day loan that monetized previously expensed project costs. One-day loans are unique to NMTC projects.
- The Commonwealth of Pennsylvania made a $4 million redevelopment assistance capital program grant, and the federal government made a $960,000 federal scenic by-ways grant.

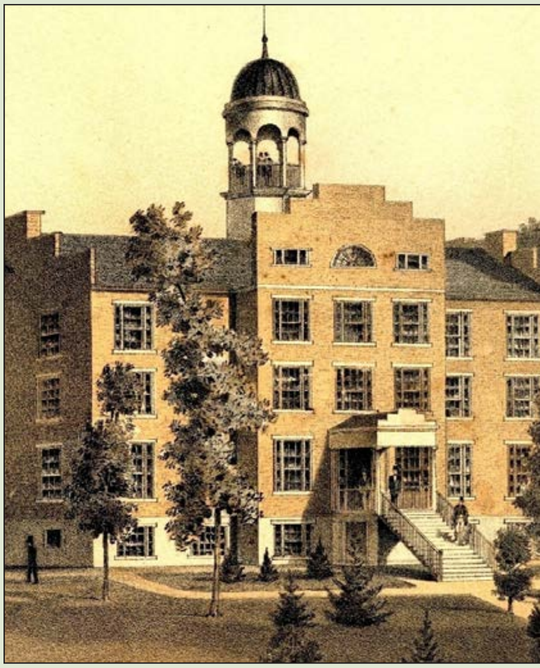
A Renovation with a Modern-Day Impact

The venture is expected to generate $23 million in local commerce during the construction period and $5 million annually in tourism spending. When completed, the SRM will employ 13 people and create 30 additional jobs in rural Adams County.[2]

"This is an example of an investment by CCG that will help preserve a building of considerable historical value while also providing an immediate and long-term stimulus to the local economy," said Brian A. Hudson, Sr., CCG chairman and executive director of the Pennsylvania Housing Finance Agency.

Based on its experience with this project, PNC offers four points of counsel for others pursuing the application of NMTCs for rural development initiatives:

- **Prioritize rural land subdivision, land use, and deed issues early in the process.** Many rural properties are expansive with complicated issues involving ownership and use. Hence, it's important to address the actual project footprint early in the process so that any subdivision requests can go through the appropriate municipal approval process as well as to identify any land use and deed restriction issues that may be present.
- **Understand local appraisal issues because it may be a challenge to assess comparative values for neighboring rural commercial real estate projects.** For many rural commercial development projects, it is difficult to identify real estate comparative values within the neighboring rural markets as well as appropriate and realistic square footage lease rates. Having the project development team clearly communicate all of the details of the project with the contracted appraiser at the beginning of the process will save a tremendous amount of time and help the appraiser come to a realistic and fair market value.
- **Ensure that all legal entities needed for the project are identified, created, and properly filed with the appropriate state and federal agencies no less than two weeks prior to closing.** For this project, the sponsor/developer needed to create four new legal entities in addition to the legal entities that were created by the investor and the CDE. This process can be overwhelming and could take considerable time when working with organizations unfamiliar with the process.
- **Ensure that all invoices and receipts are provided to tax credit counsel and the lender for project-related qualified pre-development equity expenses that are to be monetized with the one-day loan.** These need to be received no less than two weeks prior to closing. Both the tax credit counsel and the lender need to perform due diligence on all invoices and receipts in order to qualify them as eligible project-related expenses.



An image circa the Civil War shows the Lutheran Theological Seminary at Gettysburg's historic Schmucker Hall, which is being restored and converted into the Seminary Ridge Museum.

Jim Hoehn, PNC regional president, central Pennsylvania, observed that "maintaining a historical icon with the added benefit of fostering economic development in a rural market provides a unique opportunity to maximize the benefits of the varying layers of the NMTC initiative. Through this effort, PNC is proud to help to safeguard the legacy and vital record of the nation's history while sharing the story of the region's contributions to preserving our nation."

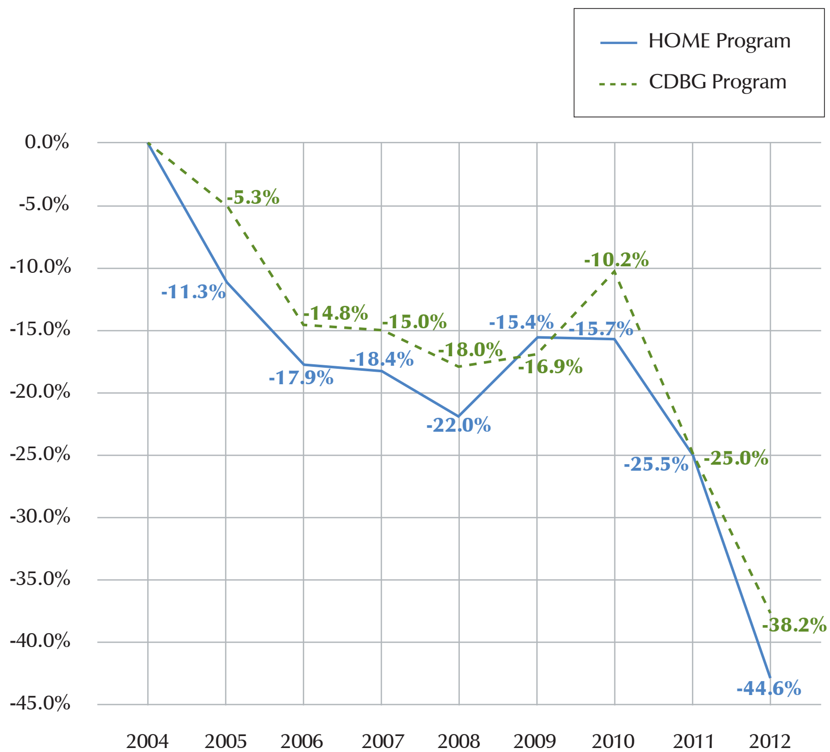
For information, contact Christopher Rockey, vice president of community development banking at PNC, at 717-425-7891 or christopher.rockey@pnc.com; http://www.seminaryridge.org/. Rockey served as PNC's lead staff member on the Gettysburg project.

[2] The source for these estimates is Delta Development Group, Inc., funding consultant for this project.

The Lack of Gap Funding for Affordable Rental Housing Projects

...continued from page 4

Figure 2
Annual Funding as Percent of Base Year (2004)



Source: HUD Allocations to Lancaster County, PA, 2004-2012

bonds with the 4 percent LIHTCs. The 4 percent credits are part of a current preservation project in which 376 affordable rental housing units in central Pennsylvania are being renovated as part of a $26 million bond transaction.[1] The units are being renovated at an average total construction cost of $22,202 per unit. In this model, the higher number of units generated enough revenue to cover the debt service. However, for new construction, which has a much higher cost per unit, revenues are often not high enough to cover the debt service. Furthermore, the high issuance costs and other technical restrictions associated with the tax-exempt multifamily bonds make them difficult to use. In more expensive markets, developing mixed-income projects can solve the problem when revenues from the market rate units subsidize the lower rents of the affordable units. In Lancaster County, the difference between market and affordable rents is not big enough to fill the funding gap.

Lancaster County is exploring a strategy to finance as much of the project's cost as possible, using tax-exempt bonds and 4 percent tax credits and then filling the remaining gap using a double bottom-line fund. A double bottom-line fund is a fund that provides some financial return and has a positive social, environmental, and/or economic impact on the local community. It is a vehicle for socially engaged investors to help the community while still receiving a return on their investment, albeit at reduced rates. The model has been used with varying degrees of success in several major markets nationally.[2] Lancaster County is seeking to use the model as a vehicle to attract local institutional funds in a subordinate position in affordable rental housing developments. These funds will replace HUD funds that were lost to budget cuts.

The first step in this strategy is to achieve the lowest possible interest rate for the tax-exempt bond, enabling a larger bond to be issued based on projected operating revenues. In initial discussions, bankers have suggested that a lower rate could be offered if the bank could also buy the tax credits, thus blending its return on the debt and equity portions of the deal. However, purchasing the bond and tax credits within the same project compromises the tax-exempt status of the bond interest.

[1] See the article on page 5 regarding the transaction, which was completed by the Housing Development Corporation MidAtlantic.

[2] DBL Investors manages the Bay Area Equity Fund I in the San Francisco Bay Area. The San Diego Smart Growth Fund invested $30 million in five projects in the San Diego area before closing in 2009 during the housing crisis.

This problem may be solved if two projects were undertaken in tandem by two banks. Each bank would buy the bond for one project and the tax credits for the other, thus achieving the desired blended rate of return. If this succeeds, the final piece of the puzzle would be financing the final 20 percent of the project that exceeds the bank's loan-to-value requirement. In the past, this was generally done using government funds. In this new model, the interest rate used for the bonds purchased by the bank would be low enough not only to accommodate the primary debt but also to support a small rate of return on a subordinate note to provide the gap funding. The result is a two-tiered debt structure, whereby formerly there would have been a single primary debt instrument supported by a subsidy in the form of grants or other soft funding.

Conclusion

Reductions in the traditional sources of gap funding for affordable rental housing projects lead to increased competition for the limited gap funding available. As a result of the increased competition, fewer affordable housing units are built and rehabilitated each year. Any long-term solution would most probably use local institutional capital as a source of funds. The challenge is to create a financing model that attracts local institutions to invest in affordable local housing projects using a double bottom-line investing model.

For more information, contact Matthew Sternberg at 717-394-0793, ext. 203, or msternberg@lchra.com, or Michael Urenovitch at 717-394-0793, ext. 210, or murenovitch@lchra.com; www.lchra.com.

Groundbreaking Deal Preserves 376 Affordable Housing Units

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Tracy Fletcher II, vice president and community development officer at Fulton Bank in Lancaster, PA, who coordinated the transaction for the bank. Fulton originated and purchased the bonds issued through LCHRA to cover both the construction and permanent financing for the project. "We had previously purchased bonds from LCHRA and had also worked with the HDC and other parties in this transaction," explained Fletcher. He identified several factors that made the bonds attractive to the bank. First, the buildings were occupied and had an occupancy history, so the lease-up risk is largely eliminated. Second, once the renovations are completed, the units will have a competitive edge in the affordable rental market. Third, the properties had positive operating histories, which are expected to improve further due to the new energy-efficiency improvements and the lower debt service.

With the refinancing in place and the most complicated legal and financing aspects of this transaction behind the organization, monitoring the renovations at all seven properties simultaneously became the next hurdle. According to Richard Ross, HDC MidAtlantic's senior construction and facilities manager, the project could be accomplished only by using one contractor large enough to commit to a scheduled completion date for all the properties. As a single project, all units must be placed in service before the post-construction tax credits can begin.

The HDC MidAtlantic received third-party estimates that utility costs will be reduced by 18 to 20 percent with the installation of solar panels, high-efficiency boilers for heating systems, and energy-efficient windows. The HDC MidAtlantic and the residents will realize these savings. Both Carper and Sternberg said separately that both for-profit and nonprofit developers of affordable housing could preserve a large number of their properties through this type of transaction.

For more information, contact Michael Carper at 717-291-1911 or mcarper@hdcweb.com, www.hdcweb.com; Matthew Sternberg at 717-394-0793, ext. 203, or msternberg@lchra.com, www.lchra.com; or Tracy Fletcher at 717-291-2774 or TFletcher@fultonbank.com, www.fultonbank.com.

CASCADE
Federal Reserve Bank of Philadelphia
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If you have any questions about the survey, or if you would like to participate, contact Daniel Hochberg at Phil.COSurvey@phil.frb.org.

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