HAC

HOUSING ASSISTANCE COUNCIL

RURAL VOICES

SOME MISKATES HAVE BEEN MADE

Rural Housers Share Their Favorite Mistakes, And What They Learned From Them

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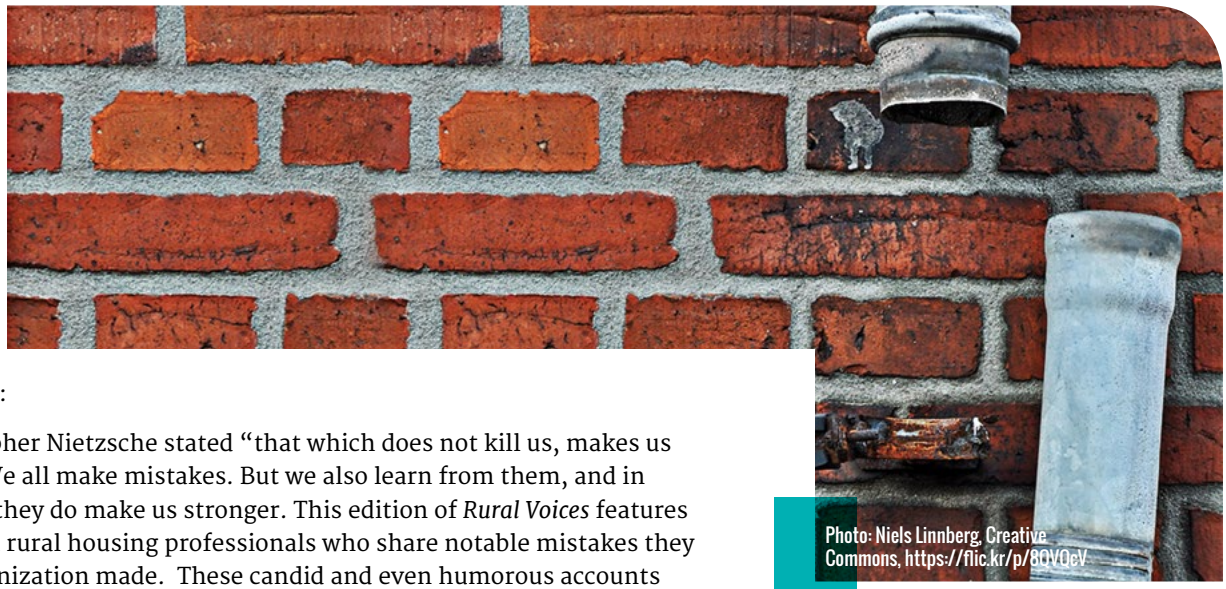

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Dear Friends:

The philosopher Nietzsche stated "that which does not kill us, makes us stronger." We all make mistakes. But we also learn from them, and in many ways, they do make us stronger. This edition of *Rural Voices* features articles from rural housing professionals who share notable mistakes they or their organization made. These candid and even humorous accounts of mistakes in rural housing are intended to convey that blunders are inevitable, but assessing and learning from mistakes can actually improve your organization and its efforts. We believe this presentation can lighten the discussion around the challenges and obstacles of providing affordable housing.

The authors graciously share stories and experiences that, in reality, they would probably not want the entire world to know about. In the course of soliciting these stories, we also know that our organization is certainly not beyond reproach and have made more than our fair share of mistakes. HAC employees share some embarrassing moments alongside the feature articles. In the spirit of this conversation, we also encourage our readers to reflect on your 'favorite mistake' in housing, and how it made your work better.

We also hear from two newly appointed and prominent federal housing officials. President Obama certainly made no mistake in nominating Julián Castro as the Secretary of the Department of Housing and Urban Development, and Lisa Mensah, as Under Secretary of Rural Development at the Department of Agriculture. The Secretary and Under Secretary share their vision and ideas on how to improve and make available housing for low-income families in rural America.

We believe that all of the *Rural Voices* presented in this edition will help us think, reflect, and even laugh about the challenges and promises of providing affordable housing to rural families.

In Community,

Polly Nichol
Chair, Board of Directors

Andrew Bias
President, Board of Directors

Moises Loza
Executive Director

RURAL VOICES

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A View From Washington

HUD Secretary **Julián Castro** Discusses Rural Housing

At the recent 2014 HAC Rural Housing Conference, HUD Secretary Julián Castro sat down with HAC's Executive Director, Moises Loza, to discuss HUD's role in rural America, his passion for public service, and how he thinks HUD can better serve rural communities across the country.

Photo: Jay Mallin Photography

Moises Loza: How is HUD working in rural America, and what should HUD's role be in rural places?

Secretary Castro: We're getting ready to celebrate 50 years of HUD, and of course the title of our department is Housing and Urban Development. But the more accurate description would be Housing and Community Development, because HUD is charged with making investments and working with communities that include not only your typical urban city, but also tribal communities and rural communities. So, even in our bread and butter investments, for instance, the Community Development Block Grant (CDBG), about 30 percent, or $800 million, of CDBG funding annually goes to states for use in non-entitlement communities, which usually are communities of less than 50,000 people. Another example is HOME. About 40 percent of HUD HOME money goes to states for use in smaller localities.

In my four months as HUD Secretary, I've visited more than 20 different communities including places in Alaska, South Dakota, and North Dakota. I had a chance to see the breadth of what HUD is doing out there and I can say that we're very committed to, and very interested in lifting up America's rural communities, just like we're investing in urban communities.

Loza: I know you have visited Native American reservations in North and South Dakota, the Turtle Mountain Chippewa among others. What kind of lessons have you taken from having seen those situations that's going to help as Secretary of HUD?

Secretary Castro: It was an eye-opening experience. The most poignant moment that I had in these last four months was at the Pine Ridge reservation in South Dakota. I visited two homes there and one of the homes had thirteen people living in one four-bedroom house. The other home had seventeen people, including two different families living in the basement. To the extent that we call ourselves at HUD, "the department of opportunity," we want to help spark opportunity by realizing that housing is just one part of the equation. Somebody needs to have a roof over their head, but we also need to make sure that they have access to good education and employment or job training, so that they can become employable.

The feeling that I got at Pine Ridge was just how distant all of that seems. The connections among those things and just in general opportunities seemed distant from the folks there. The unemployment rate on the Pine Ridge is something like 68 percent. So you have these inveterate challenges, but the needs out there are much greater than the resources that have been dedicated to them. At the federal agency level, how do we get better at working together? The Department of Housing and Urban Development, Department of Education, USDA, Small Business Administration are all institutions of opportunity working to empower rural and tribal communities. So we need to get on the ball at HUD about figuring out how do our CDBG program, Indian Housing Grant, and other HUD programs interact with the other departments? How are we intersecting with those tribal communities and the private sector as well to help spark that opportunity in those places? Because after my visit, I could understand how some folks would feel like they were so far away from opportunity.

Julián Castro *was sworn in as the 16th Secretary of the United States Department of Housing and Urban Development in July of 2014. In this role, Mr. Castro oversees 8,000 employees and a budget of 46 billion dollars. Before HUD, Mr. Castro served as the mayor of the city of San Antonio, Texas. During this tenure he became known as a national leader in urban development. In 2010 the city launched the "Decade of Downtown," an initiative to spark investment in San Antonio's center city and older neighborhoods. This effort has attracted $350 million in private sector investment with a goal of developing 7,500 new homes by 2020. Previously, Mr. Castro served as a member of the San Antonio city council. He is also an attorney who worked at Akin Gump Strauss Hauer & Feld LLP before starting his own practice. Secretary Castro received a B.A. from Stanford University, and a J.D. from Harvard Law School.*

Loza: Besides this collaboration, are there any thoughts or plans about how HUD might be able to address some of these very difficult problems?

Secretary Castro: Sure, I'll give you a very concrete example of something that the President has pushed for and we're glad to see get through Congress – the reauthorization of the Native American Housing and Self-Determination Act (NAHASDA). We're also very happy that NAHASDA now includes the ability for HUD and the VA to allow the use of HUD VASH (Veterans Affairs Supportive Housing) vouchers for use in tribal communities. These HUD VASH vouchers have helped reduce the rate of homelessness among veterans by 33 percent. One of the things that I learned when I visited Pine Ridge and Turtle Mountain was that you have a higher than average percentage of residents in tribal communities that are veterans than in the normal everyday population. However, these HUD VASH vouchers could not be used for housing in tribal communities because of a quirk in the statute. There have been folks on both sides of the aisle, as well as the President, who advocated for changing that. So that is one practical thing that we believe would allow us to dedicate more resources to a needy group in these tribal communities that would make a difference.

Loza: The theme of our conference is in part about the need for a new generation of leaders in affordable housing and community development. You of course are one of those young emerging leaders. How do you think we can motivate more young people to enter and stay in this field?

Secretary Castro: One of our big challenges at HUD is getting people over this hump of three years. You have to find ways to satisfy the mission-driven aspect of our work. It's been my experience that the people who get into this work are doing it because they care, and because they want to positively impact people's lives. So we have to create a greater connection between what people are doing on an everyday basis, and the outcomes of their work -- the good things, the benefits that happen in people's lives.

What does that mean at a practical level? That means you structure your employment so that folks who are often times sitting behind a desk get a chance to actually interact with the people that we serve. Ideally, staff should have a chance to visit projects so that they make that connection with their passion of helping people. We want them to see the benefits to what they actually do on a daily basis, which let's face it, is often not glamorous work and is typically done behind a desk. I think if those of us in housing, or any of the departments that depend on mission-driven people, can improve making that connection, we will attract more folks. That, and more money. That always helps. But I know that people are not doing it for the money. I believe that feeding the mission-driven aspect is the key.

It's important to note that there are measures that have been taken since we went through the housing crisis to help ensure that we're not going to fall back to where we were before.

Loza: The Rural Housing and Economic Development program is something that I think is very dear to the hearts of many people working in rural communities. Any thoughts about whether that initiative could be reinstated or brought back?

Secretary Castro: I think that the work and the investments ought to be continued, whether it's made under that line item or not. One of the things that has stuck most in my mind as I've done this travelling as HUD Secretary are the needs out there in our rural communities and our tribal communities. We're very open to discussion about how to help ensure that sufficient resources are going to those communities. There is a lot of work to do. Whether there is a line item or not, we should make sure that those investments are made in these communities, and I want people to know that I'm going to be very vigilant about that.

Photo: Jay Mallin Photography

Loza: I have heard you speak about your interest in credit enhancement, making credit more available, and the tightness of credit at this time. Can you talk a bit about that?

Secretary Castro: Because of risky market products and other practices a few years ago we had a housing crisis. It was probably too easy, in some instances, to get a home loan. But now the pendulum has swung completely in the other direction. I'm sure you see in your communities where it is too difficult for folks to get a home loan. We're talking about folks who are responsible, who may not have a credit score of 750, but they have a decent credit score and they're responsible folks. They're ready to own, ready to buy a home, and they can't get credit. I've said that there should not be a stigma these days to promoting homeownership. It seems like, understandably, for the last few years people were hesitant about saying we need to promote homeownership. We're promoting homeownership in a responsible way. It's important to note that there are measures that have been taken since we went through the housing crisis to help ensure that we're not going to fall back to where we were before.

At HUD we're happy that FHA's mutual mortgage insurance fund recently got back into the black. I believe that will allow the FHA to continue to fulfill its traditional role of ensuring that first time homebuyers and people of modest means can get access to credit. We also are encouraging the lenders to open up that credit box and to lend to folks that have credit scores that are 600 – 620. Right now it's very difficult if you have a credit score underneath 680 to get a home loan. There are millions of Americans that are not able to access credit because of that. We want to change that in a responsible, constructive way.

Loza: Thank you very much Mr. Secretary.

Secretary Castro: Thank y'all.

WATCH THE FULL CONVERSATION with Secretary Castro and all of the other speeches from the HAC Rural Housing Conference on HAC's YouTube Channel, **www.youtube.com/watch?v=IVF0CiMZ-Eo**

A View From Washington

Newly Appointed Under Secretary of Rural Development Lisa Mensah

Shares thoughts on the centrality of housing in the USDA Rural Development portfolio

Since becoming the Under Secretary approximately four months ago, I have been focused on lifting up the amazing track record of accomplishments that make up the USDA rural development portfolio. With total outstanding loans and guarantees valued at over $200 billion, the USDA rural development portfolio represents one of the country's most impressive development banking enterprises. Rural America is better because of the years of investment made through USDA Rural Development programs in housing, utilities, and businesses. Our portfolio of investments is rich in the tradition of investments in rural electric systems and water systems along with new investments in renewable energy systems, broadband, and value-added agriculture production. In the area of rural housing, however, is where we do our largest work.

In the past five years, USDA Rural Development has helped more than 900,000 rural families buy or refinance a home. In one year--fiscal year 2014 --we helped over 146,000 Americans become homeowners. Rural Development's Rural Housing Service is the only federal agency that provides one hundred percent financing to qualified families and requires no down payment. Our direct loans can be combined with payment assistance for the purpose of helping low-and very low-income families in rural areas achieve homeownership. Our single-family housing loan guarantee program made available $24 billion in guaranteed loans to allow low- and moderate-income families to purchase homes in rural areas. This guarantee program provides vital support to private markets and comes at a time when our nation still struggles to regenerate the important homeownership market in rural America.

In addition to promoting affordable home ownership, we are committed to preserving rental housing in rural America. Our housing program provides financing for rental housing projects, as well as rental assistance payments for many low-income tenants residing in those projects. Our current portfolio provides housing to over 713,000 low income individuals who live in one of over 14,000 projects supported by our financing. Our ability to support rental housing in rural America is part of our conviction that rural America needs to have a full range of housing options in order for workers, farm laborers, families, retirees, and the disabled to all make their contributions to a successful rural community.

I am particularly proud of the work USDA accomplishes in its housing programs. Our staff is committed to building on the legacy that the USDA has established in both its single-family and multifamily programs. I am also proud that our staff understands the current challenges

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in these programs. I am pleased by the plans now underway to make USDA programs focused on the customer through improved business processes. I am also pleased that we are focused on working with our stakeholders to find the best solutions for preserving multifamily housing in rural America. I am convinced that the best solutions are developed in partnership and thus I am so pleased to consider the Housing Assistance Council a strong partner to our work. Our work cannot grow without advocates who educate our leaders and the public about the needs of rural America for safe affordable housing.

I started my career in commercial banking and moved to the Ford foundation where I spent 13 years making grants and loans predominately in rural America in places of high poverty. What I saw in my years at the Ford Foundation, both in the U.S. and in many other countries, was the long hard work of lasting development. While larger economic forces undoubtedly affect the pace of economic change, investing in people and institutions who can create conditions for a business to flourish or for new housing is the path to renewal and hope.

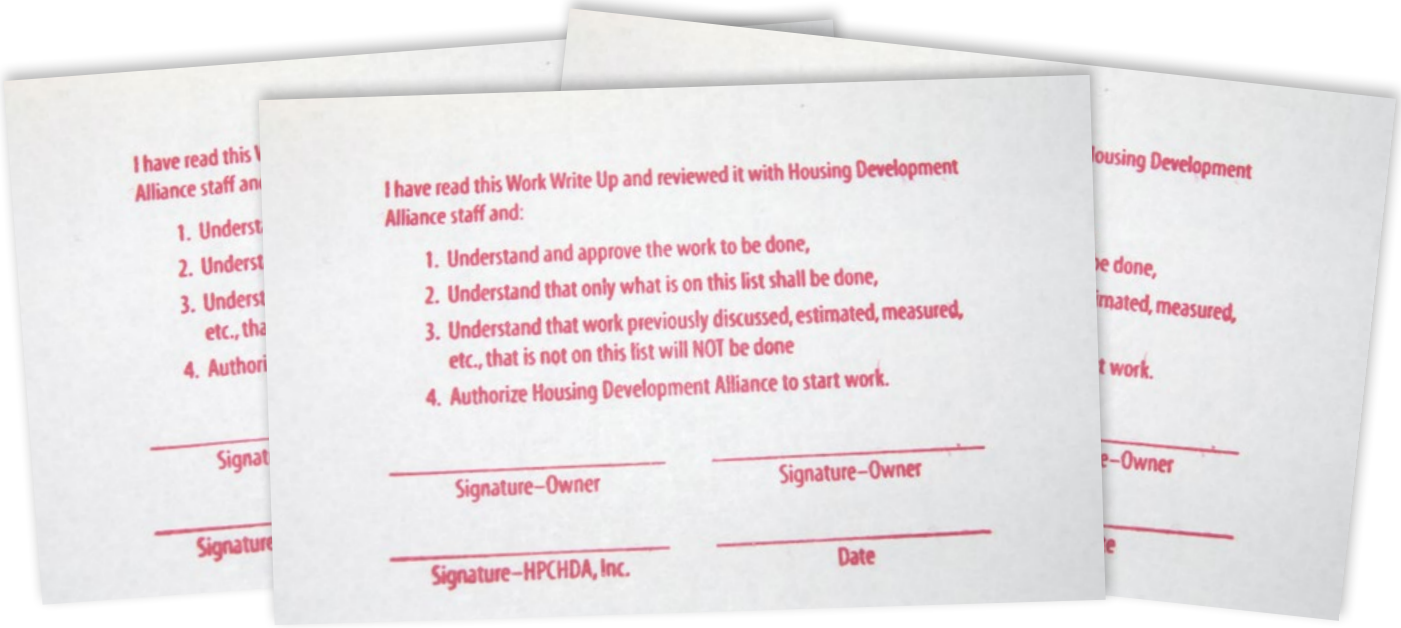
I recently toured a multifamily property in Florida financed by USDA Rural Development for farm workers and their families. Often the Under Secretary participates in the groundbreaking or ribbon-cutting for a project. However, in this case, I was able to see a property we had financed 15 years ago. What was striking is how beautiful the property still was after 15 years. The units were in wonderful condition, the laundry room sparkling clean, the community room inviting and the preschool was the kind of warm and nurturing environment we all want for our children. It was a testament to the hard work and care for maintenance of the residents and property managers and the commitment of those who have worked so hard to bring the project to fruition. It was also a reminder of the lasting rewards that investing in housing can bring. Already a whole generation had benefited from this project and another generation is set to continue to thrive in a safe, affordable and comfortable setting.

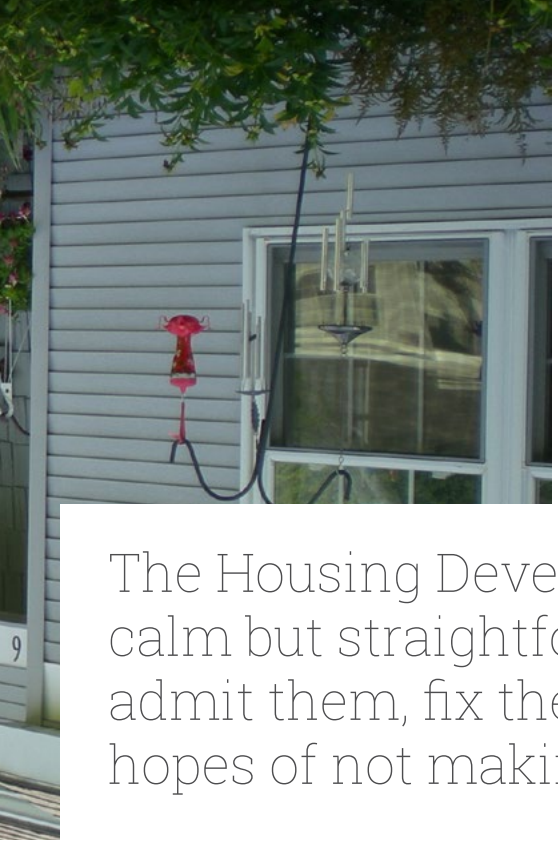
What stands out for me as I think about the breadth of programs operated at USDA by the Rural Development team is that we are fortunate to have tools that have been proven to be successful in helping rural communities grow. The loans and grants we make each year contribute directly to changing communities and inspire private markets to help us go much further in building rural America. I look forward to being a champion for the work of rural development and to calling on the wisdom of the many partners who make our work possible.

Lisa Afua Serwah Mensah *was nominated by President Obama for the position of Under Secretary of USDA Rural Development and she was confirmed by the U.S. Senate in November of 2014. An expert in using financial tools to improve the economic security of the working poor, Ms. Mensah has experience in the private financial sector and has worked extensively on small and micro business development, housing, and financial and savings policy. Prior to joining USDA, she was the founding Executive Director of the Initiative on Financial Security at the Aspen Institute. Ms. Mensah began her career in commercial banking at Citibank before joining the Ford Foundation where she was responsible for the country's largest philanthropic grant and loan portfolio of investments in rural America. Ms. Mensah holds an M.A. from the Paul H. Nitze School of Advanced International Studies of The Johns Hopkins University and a B.A. from Harvard University.*

"My House Is **Backwards!**"

By Scott McReynolds





The Housing Development Alliance takes a calm but straightforward approach to mistakes: admit them, fix them, and learn from them in hopes of not making the same mistake twice.

Last fall the Housing Development Alliance celebrated our 20th Anniversary and our 200th new home with a double house raising. In the midst of this controlled chaos, an overzealous volunteer nailed some studs on the wrong side of the layout mark. While the volunteer wasn't great at reading layout marks, he could swing a hammer; so by the time the mistake was discover he had most of the wall framed. The volunteer was embarrassed and concerned that he had wasted time and materials. I watched as the Housing Development Alliance carpenter showed the volunteer how to knock the wall apart and pull the nails. The carpenter then showed him how to read the layout marks. As the volunteer, who was still embarrassed, apologized yet again, the Housing Development Alliance carpenter said, "Don't worry about it. The only person who doesn't make mistakes is the person who doesn't do anything." Hearing this, the volunteer finally relaxed and went on to have a great day. I even saw him explaining layout marks to another volunteer later in the day.

Who's to blame doesn't really matter; the fact is we had a flawed procedure that allowed this mistake to happen.

There is a lot of wisdom in that carpenter's statement. If you do something, especially new things, you are going to make mistakes. It's inevitable. Don't worry about it. In fact, if you aren't making mistakes, you probably are not pushing yourself or your organization hard enough. As the Executive Director of the Housing Development Alliance, I certainly don't encourage mistakes, but I do try to embrace them when they happen. So the question isn't if you will make mistakes, but the question is how you and your organization handle them. Playing the blame game, pointing fingers at others, jumping up and down on someone's desk, yelling, and the like aren't useful responses and do nothing to help you avoid making similar mistakes in the future.

At the Housing Development Alliance we take a relatively calm and direct approach to mistakes. We admit them, we fix them, and we learn from them in the hope of not making the same mistake twice. Since the only thing better than learning from your own mistakes is learning from someone else's, here are two examples of mistakes and the lessons we have learned from them.

Lesson 1 – My House Is Backwards

We realized that the process is confusing and that people often hear what they want to hear.

We had just finished framing the exterior walls on Mickey's house when she called me; "My house is backwards, the door is on the wrong side." I called the construction supervisor who swung by the site to check it out. He called me back and said it was built just like the plans. Then I checked with our assistant director who works with customers on house plans. He gave me a copy of the plans she had picked out. Turns out the two sets of plans were mirror images. One had the door on the right; one had the door on the left. Mickey had changed her mind several times during the process and somehow or another, our staff had gotten out of sync. To this day, I still don't know "who's to blame." Did the assistant director forget to let the construction supervisor know about a change? Did the construction supervisor forget that the assistant director had told him to change it one more time? Or was it something completely different like an email that got lost in cyberspace? Who's to blame doesn't really matter; the fact is we had a flawed procedure that allowed this mistake to happen.

The first thing we did was fix the problem. We got lucky that 1) Mickey noticed the problem before the roof was framed (otherwise we would have had to pull trusses off) and 2) that the house was a rectangle. So the fix was pretty simple, we just cut out a few studs, and moved some windows and doors.

The second thing we did was to figure out how to make sure it never happened again. Our solution was to improve our preconstruction conference. We made several changes. First, we now have the homeowners sign the final plan. When possible, we do this at the site so the client can easily visualize where the house will sit, where the doors/windows will be, where the driveway will be, and such. The construction supervisor ensures that the signed plan is what gets built. We also explain to the customer that from this point forward, their point of contact is the construction supervisor and only he has the authority to approve any changes to the plan and that any changes must be made in writing. I am happy to report that, 150 plus houses later, we have not made this mistake again.

Lesson 2 – Make Sure They Hear What You Say

I was conducting a final inspection on a USDA Rural Development (RD) Section 504-funded home rehabilitation with the local USDA staff. The inspection was going great -- the homeowner loved the work and couldn't be happier. Then the RD staff asked the homeowner to sign the check to pay us. That's when the homeowner said, "But they're not done yet. They haven't done the back bedroom floor." The RD staff and I both pulled out the scope of work attached to the contract. To my relief (or so I thought), the scope didn't mention the back bedroom floor. The USDA staff member explained to the homeowner that it was not part of the contract. That's when the homeowner got upset, "But I needed that fixed. They measured it; they made a drawing of the room. We even talked about what floor covering I wanted. This isn't fair!"

I knew instantly what the problem was. Many home repair clients request more work than they can afford. We estimate all the repairs a homeowner requests, then work with them to establish the final scope of work. We look at the homeowner's wants, but also prioritize based on importance of the repair. In this case, the roof work had been prioritized over the floor repair. It doesn't make sense to fix a floor only to have water from a leaky roof drip all over it. But somehow in the process, the homeowner didn't understand that the bedroom floor wasn't going to get fixed. I'm sure at the loan closing, we reviewed the scope of work with the homeowner. And yes, the homeowner should have realized that the back bedroom wasn't on the scope of work. So we could have just chalked this up to a customer not paying attention. But placing blame on the customer isn't the best approach for improving word-of-mouth marketing.

We realized that the process is confusing and that people often hear what they want to hear. Furthermore, the loan closing takes place in the RD office where it's harder for the homeowner to visualize the repairs. To prevent a recurrence of the mistake, we bought a big red stamp and added an extra walk through. A day or two before we start a rehab, one of our staff members visits the home and does a thorough walkthrough of the scope of work with the homeowner. They review each scope of work item and explain what is going to be repaired and how we are going to repair. Then we stamp the scope of work with a red stamp that explains that only the work on the write up will be completed. Furthermore, the stamp explicitly says that no other work – even work previously talked about, estimated, or measured – will be completed. This process has proved very useful and has helped us avoid several similar misunderstandings with other homeowners.

So next time you make a mistake, remember, "Don't worry about it. The only person who doesn't make mistakes is the person who doesn't do anything." The best we can do is to learn from our mistakes so we don't repeat them.

R. Scott McReynolds, *the Executive Director of the Housing Development Alliance, has worked in the rehabilitation and construction of affordable housing in Eastern Kentucky since 1992. Since 1996, the Housing Development Alliance has completed over 200 homeownership units, completed over 500 repairs for low income homeowners, and developed 36 rental units. Scott serves on the board of the Federation of Appalachian Housing Enterprises, the National Rural Housing Coalition, the Appalachian Arts Alliance and the Community Foundation of Hazard and Perry County, KY.*

HAC Favorite Mistakes

"I sent out a reminder email for a training which listed the correct start dates but indicated that the training began on a Wednesday rather than on a Tuesday as was actually so. One attendee arrived Wednesday morning after a long drive prepared for two days of training -- with only one day remaining. Thankfully, my colleague agreed to sit with her during breakfast, provide an overview of day one, and work with her the rest of the day to make sure she could keep up. I did not score well on that evaluation!"

Dan Stern, HAC's Communication and Outreach Manager

Photo: Charles Henry (edited for this publication) Creative Commons: http://bit.ly/1QK9VrE

A Promising Concept... **With a Harsh Realization**

By Laura Buxbaum

After self-examination, a housing nonprofit in Maine asks, "How did we get here? What might we have done differently? And would we ever, under any circumstances, do it again?"

When I joined CEI as its Director of Housing Resource and Policy Development in 2008, the organization had just begun to develop a new five-year strategic plan. The planning process included a critical look at CEI's housing development program, which was at a crossroads. CEI was reevaluating its historic housing activity and its current place in the market. One reason for this self-examination was that, as the country was waking up to the full brunt of the housing crisis, CEI, too, awoke to a harsh realization: its housing portfolio was in danger of sinking under the weight of non-performing assets.

The heaviest burden was represented by the 16 remaining homes in our 12-year-old lease-to-purchase program. From the perspective of 2008, this program looked like the culmination of a long series of bad decisions. The properties were scattered from Parsonsfield on the New Hampshire border to Bremen, on the midcoast, to St. Albans, 125 miles north of the southernmost property. CEI's Construction Analyst noted that "it could take two days to drive to all the sites – if you did nothing but drive." Seven of the homes were vacant. The occupied homes were inhabited by tenants who had lived there long past the two-year lease/purchase limit. At least three tenants were more than $15,000 in arrears. And due to a combination of plummeting home values, deferred maintenance and, in some cases, tenant damage, all were worth considerably less than CEI had originally paid for them. In 2008, this picture looked like a failed program.

At the time, we didn't do a lot of soul-searching about how we got there – we just knew it was time to get out. Over the next three or four years, staff worked aggressively to minimize losses and dispose of the properties. Some were sold to the existing residents; some tenants were evicted; all but one property was sold and we heaved a sigh of relief.

But now, with time to reflect, we ask the questions: How did we get there? What might CEI have done differently? What are the specific challenges in a rural state? Was the program really a complete disaster? And would we ever, under any circumstances, offer a lease-purchase program again?

Some background: CEI is a Maine-based Community Development Corporation (CDC) and Community Development Financial Institution (CDFI) founded in 1977 with a mission to help create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential. From the early years, CEI's focus was on economic development and business assistance – lending, investment and technical assistance for entrepreneurs and existing businesses, from microenterprises to medium-sized enterprises providing jobs and community economic benefits. While the majority of CDCs began with a focus on housing, for CEI housing came later. As we worked with businesses and low-income communities, we saw the need for affordable rental housing and homeownership, and in 1989 CEI hired a Housing Director and began some small-scale development.

CEI began the lease/purchase program in the mid-1990s, for a number of very good reasons:

- As a relative newcomer to housing, single-family development seemed suited to CEI's rural footprint.
- CEI's focus at the time was more service-oriented than it is now, and homeownership was seen as a sweet spot of asset building.
- The single family market values were relatively low, creating an opportunity.
- Major foundation support provided both operating and capital dollars, making it possible to launch a fully staffed program with capacity to purchase homes.
- CEI's strong YouthBuild program also provided support. A home bought at auction and rehabbed by YouthBuild seemed like a no-fail formula – even if the tenant wasn't able to purchase, CEI was pretty likely to recoup its costs.

The program was targeted to low-income residents. Homebuyer education, counseling, and ongoing case management were built into the program. In the beginning years, with full funding and staffing and a favorable real estate market, the program worked well. Of the 13 properties purchased in 1996 and '97, 11 were sold to the original tenants – seven within the two-year lease/purchase period. By 2002, the program had served 41 participants. CEI received more grants and low-cost loan capital, enabling the program to ultimately acquire 67 homes.

But by 2001, issues were beginning to emerge. There had been some changes in the program, including staff. From the original model of purchasing foreclosed homes at auction and then finding program participants, the program had moved to a model of finding participants and having them find homes to purchase. While this may have served to increase client satisfaction, it resulted in properties that were widely scattered geographically and had a higher purchase price (prices also rose as time went on). In addition, many of the properties required extensive rehab and repairs.

As first-time homebuyers, most participants did not have expertise in purchasing or evaluating a home, and many seriously underestimated the time, expense, and skill needed to undertake needed repairs. While the initial properties were rehabbed by YouthBuild, later participants were expected to conduct their own repairs. If extensive rehab was needed that the lease-purchase client did not have the money or skills to accomplish, CEI would provide the improvements and add the cost to the ultimate purchase price.

It's also worth noting that the program was growing in the context of a hot real estate market. The assumption – one shared by the whole country – was that values would continue to climb. This was a dangerous assumption in hindsight.

A 2002 internal evaluation noted that "the lease-to-own period is financially trying for participants. Many of [them] come from a position of having no savings, and then CEI asks them not only to begin putting money away, but also to continue paying comparable rent, invest in house repairs, and pay off preexisting debt."

At the time, we didn't do a lot of soul-searching about how we got there – we just knew it was time to get out.

The evaluation also noted the slow turnover rate – at that point, only nine of 41 participants had successfully purchased their homes. Many participants had suffered life events such as illness, divorce or job loss. For others, the process of credit repair and building their savings simply took longer than expected. This left CEI in the position of serving as a scattered-site landlord of properties that often required more maintenance than their residents could provide. At the same time as CEI was trying to provide housing and financial counseling. It seems in retrospect that boundaries and roles may not always have been clear – CEI was, and is, a very mission-driven organization, and its staff wanted each participant to achieve success. It took a truly drastic situation for CEI to evict a participant.

The 2002 evaluation made some recommendations to help the program work more effectively. In the next four years CEI sold 28 more homes, 20 of them to the original lease-purchase tenants. CEI also continued to admit participants and purchase homes, though at a slower pace. In the meantime, foundation grants were becoming more competitive and less rich, and program staff was reduced from two full-time staff plus a housing counselor to one staff person with multiple roles and a housing counselor. In the end, we can say that the program did have some successes:

- Thirty-four lease-purchase renters became owners.
- Program participants surveyed in the 2002 study overwhelmingly reported positive life changes as a result of participation.
- All but one of the properties was ultimately sold. (The one that wasn't sold is still rented by the original lease-purchase participant.)
- And, net return to CEI on those sales was positive – about $135,000. However, that figure does not include staff time and other program costs.

Lessons Learned

Based on the experience of CEI's lease-purchase program, we've developed a list of Do's and Don'ts for anyone considering a similar effort:

DON'TS	DO'S
CEI allowed participants to choose their homes from the market, and these were frequently the cheapest available, with extensive rehab and maintenance needs. This compromised the value of the collateral and the ability to recover CEI's investment, and placed a financial burden on both the tenant and CEI to accomplish needed repairs.	Develop or purchase quality homes that will retain their value, not strain the budgets of participants, and protect your investment.
Homes were widely scattered geographically, making it difficult to keep up with property management and resident assistance.	Define a geographically manageable area.
Homebuyer education and counseling, while helpful, may not be enough for some low-income participants to achieve and sustain homeownership. For participants who are already on the edge financially, any crisis can derail homeownership.	Consider a realistic income target and tighter parameters for participant selection. Provide ongoing, hands-on support, especially for participants who encounter unanticipated maintenance costs or face major challenges such as divorce, job loss, or health problems.
Don't bury your head in the sand if things aren't working out.	Deal with delinquency promptly. Transition participants out of the program if they don't work to improve their credit, save for a downpayment, budget for maintenance, and become "bankable." Be willing to evict participants who fail to pay rent and don't work to address the problems.
Don't assume that participants have the knowledge, skills, or capacity to adapt to difficult situations and added costs such as a crowded or substandard home, a long commute that adds expense, or a long do-it-yourself repair list.	Guide participants toward a sustainable situation that takes into account their skills and resources.
Don't assume that the market will continue to rise or hold steady.	If a property is vacant or losing money and the lease-purchase option has failed, sell promptly – even if it means a loss.

__Laura Buxbaum__ is Director of Housing Resource and Policy Development for CEI. Laura has worked in community development and nonprofit administration since 1992. She has worked as a community organizer and planner, a program director, deputy director and executive director. She is a member of the Board of Directors of the Maine Affordable Housing Coalition and of the National Rural Housing Coalition

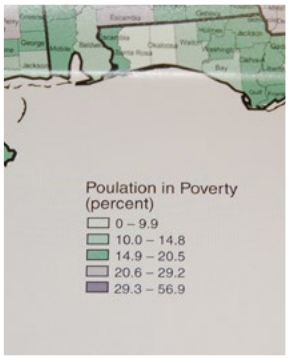
It is timely to reflect on these lessons. The economy and real estate market are in a similar place as at the beginning of the lease-purchase program. Home values are low in the wake of the economic and foreclosure crisis, but they are rising. Credit for low- and moderate-income buyers is extremely tight, and many would-be purchasers may have suffered financial and credit damage in the past several years due to job loss, foreclosure, or bankruptcy. Sometimes we view this economic landscape and consider whether the time is right for a new lease-purchase program. We don't know if we'll ever try again – but we do know that a new program would be designed with much tighter parameters, with adequate, long-term funding for both program and capital costs, and with full understanding of the lessons learned the first time around.

Photo: WCN 24-7, Creative Commons, https://flic.kr/p/cwfVV9

HAC Favorite Mistakes

HAC's Poverty in the United States map, which accompanies the decennial Taking Stock *report, is one of our most widely distributed products. The poster graces the walls of Congressional offices and nonprofits across the nation, and has been a source of pride here at HAC. But if you look closely at the 2002 version of the map, you'll notice an embarrassing error. The map's legend states* "Poulation in Poverty" *not "Po(p)ulation." Among my many mistakes, this is probably the most visible, and it reinforces the need to "review, review, review," and then review again.*

Lance George, HAC's Research & Information Director



HAC FACTS

HAC CONFERENCE

The 2014 HAC Rural Housing Conference brought together over 600 participants for numerous pre-conference meetings, 35 workshops, seven plenary sessions, and a variety of networking opportunities. Focusing on the theme, Retool, Rebuild, Renew, the conference challenged attendees to reimagine the field of rural housing to create a more viable and sustainable industry.

Photo: Jay Mallin Photography

Materials from conference workshops and videos of the plenary sessions are available at:

ruralhome.org/rhc

HAC LOWERS ITS INTEREST RATE

In an effort to increase the capacity of local organizations to develop affordable housing in rural communities, the Housing Assistance Council has lowered the standard interest rate to 4.75 percent (7.75 percent for for-profit entities) for its loan fund products. HAC loan funds can be used for single-family or multifamily housing projects to support predevelopment, acquisition, site development, and construction/rehabilitation activities.

For more information, visit:

ruralhome.org/lending

RURAL SENIORS AND THEIR HOMES

With the Baby Boomer generation turning 65, the United States is experiencing growth among older adults that it has never before seen. In January 2015, HAC released a new report, Rural Seniors and Their Homes: Housing and Aging Rural America and hosted a companion webinar focusing on this demographic shift.

Learn more about the demographic, economic, and housing trends of seniors and near-seniors in rural America as well as their housing options at:

ruralhome.org/seniors

HAC TO HOST SYMPOSIUM ON RURAL VETERANS HOUSING

This second annual conference, meeting on May 20, 2015, will provide information on housing, health, and employment needs and programs for rural veterans. Cosponsored by The Home Depot Foundation, this event will draw attention to this sometimes forgotten group, and showcase successful local projects serving veterans.

For more information, visit:

ruralhome.org/veterans

The Gray Panthers of El Dorado, Amador, and Placer Counties:

How the Good Guys Finally Won

By John Frisk

A local citizen-board and a group of rural "housers" kept a project afloat after near-collapse in its early years resulting in a development that now serves the community with 40 units of senior housing.

This is the story of a rural elderly rental housing development in Diamond Springs, CA, the area where the California Gold Rush of 1849 took place. The author originally set out to record only the difficult birth of this project. As the facts revealed themselves, however, the bigger story begged to be told.

The Beginning: **RULE 1**

If something sounds too good to be true, it may well not be true.

In 1983 the telephone rang in the Loan Fund Division of Housing Assistance Council (HAC). The caller was the late Salvatore Solinas, a beloved and respected program manager at the California Department of Housing and Community Development (DHCD). DHCD staff explained that the "Gray Panthers," represented by a real estate professional, had applied to DHCD for predevelopment loan funds. Previous proposals by the real estate professional had not proved feasible. DHCD cited a number of concerns but thought the proposal to be possibly feasible.

DHCD's Loan Fund was nearly empty and the agency was unable to fully fund the loan request. Would HAC be interested in a joint venture? Answer: HAC probably would be interested, subject to full staff and Loan Committee review, and approval of the project by both DHCD and HAC.

The Plot Thickens: **RULE 2**

With a backdrop containing several promising elements, what could possibly go wrong? The answer, as it turned out, was just about everything.

The Project Site - The site consisted of two parts. Parcel A was to be the site for a 24-unit Farmers Home Administration (FmHA)-financed elderly project. Parcel B later became the site of 16 additional units. Problems abounded including unbudgeted development costs, a private access to the site (not a municipal street), allocation of water rights from the local water district, and unfunded school fees required for real estate developments. Ultimately, the site's owner personally bonded the private access and later defaulted on his bond, requiring HAC and DHCD to fund the bonding. The owner eventually left the area in a welter of legal troubles. Project site control, originally seen as an asset, quickly manifested thorny problems. Nevertheless, site purchase and development, with a loan from HAC in May 1984, followed by the DHCD loan, went forward, paving the way for the FmHA project.

The Gray Panthers, Who or What Was It?

Calling herself the project consultant, the aforementioned real estate agent acted as if she was the "Gray Panthers of El Dorado." Evidence of this belief began to mount. The national Gray Panthers, a vocal advocate organization for elderly rights,

Within a year, board members and the consultant were threatening and suing each other.

objected to the consultant's use of the Gray Panthers name and denied any connection with the project. The consultant refused to cease using the name.

The consultant demanded to be paid for her organizing and packaging work on the project, a proposition that HAC and DHCD had no authority or funds to provide. She repeatedly asserted that HAC was a federal agency, part of the federal Department of Housing (HUD). She wrote letters to her member of Congress demanding that HAC pay for her services.

The Panthers' original board of five local citizens quickly became restive and refused to back demands of the consultant that they found unwise. Within a year, board members and the consultant were threatening and suing each other. The consultant then recruited new board members more compliant with her plans for the project. After the project acquired financing from US Department of Agriculture, Farmers Home Administration (FmHA) in 1985, she attempted to sell the project to a developer, apparently to raise funds to pay for her services. FmHA made clear that they would not permit a change of developer under those terms.

The Lawsuits Begin

In February 1987, the FmHA project was completed. In October, the consultant filed a mechanic's lien against the property setting the stage for a subsequent legal battle. The consultant sued HAC and DHCD and the Gray Panthers. Unable to acquire or retain legal representation, she filed suit pro se, that is, acting as her own legal counsel. To the surprise of the lenders, the local court, in deference to a party asserting terrible mistreatment, allowed the case to proceed. First the court required the parties to submit to arbitration, an expensive and time consuming process that came to nothing. When the arbitrator found for the lenders, the consultant insisted on a regular judicial proceeding. DHCD was represented by the Attorney General's office, a local public service advocate represented the Gray Panthers, and HAC retained local counsel. In October 1987, after a four-day jury trial in the El Dorado Superior Court, the court informed the consultant that, failing an agreement to drop all her charges and claims, the court would direct such a verdict. Her agreement to the dismissal of all claims did not prevent her from a later unsuccessful appeal.

The Gray Panthers Become Diamond Sunrise

What is it today? **RULE 3**

With a modicum of luck and a boost from Divine Providence, even a seriously troubled project can be turned around. (Dedicated rural housing professionals and community people are also helpful.)

The 24-unit FmHA project (later named Diamond Sunrise I) was completed and occupied in 1987, but the years of struggle took its toll. Interested local citizens, FmHA, and DHCD became increasingly concerned with governance and management. In 1990, DHCD asked the Rural California Housing Corporation (RCHC) to make a servicing visit that showed the Gray Panthers to be a "shell corporation" without an effective board. RCHC, with guidance from FmHA, project residents, and

HAC Favorite Mistakes

At a HAC regional training event, I recruited an outside presenter to do two sessions on different topics on two consecutive days. Except I forget to tell him about day two. He had to leave after day one. Two HAC staffers, at my groveling request, filled in at the last minute and did an excellent job. At a later HAC staff meeting, these two staffers received awards for being "outstanding pinch hitters."

Joe Belden, HAC's Deputy Director

community leaders, negotiated a reconstituted board-based nonprofit, Diamond Sunrise Corporation, to assume control and ownership of the project. RCHC staff joined the board of directors, and assisted the board in overseeing the management of the 24-unit development.

RCHC pursued the build out of Parcel B. Six applications were made in 10 years and in 2003, 16 more units of HUD 202 elderly and disabled housing, Diamond Sunrise II, were built and occupied. In 2000, RCHC affiliated with a larger group, Mercy Housing. The two projects have separate, but interlocking boards, and a common management, presently by a management component of Mercy Housing. The specifics of these results could serve as a textbook for small town housing development, but those responsible modestly pass them off as "all in a day's work."

Yet another problem confronted Diamond Sunrise I in maintaining the viability of the original 24 units of USDA FmHA 515 senior housing. The project was unusual in that the rents were subsidized with state funds. When this funding terminated, Diamond Sunrise, with assistance from RCHC/Mercy, was awarded FmHA rental assistance for 23 of the original 24 units.

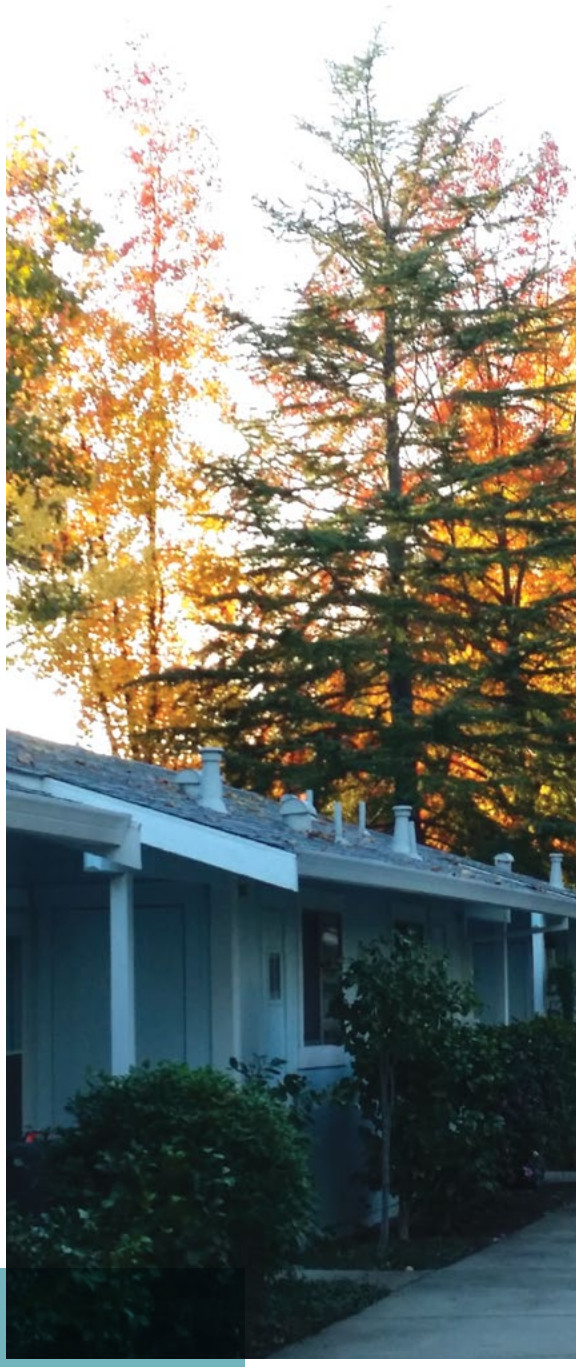
The present 40-unit housing development, whose beginning and early years were so sadly devoid of promise, now looks to the future with a vigorous and viable board, highly competent management, and sound financing and subsidy adequate for the immediate future.

What Can We Learn From This 30-Year Venture?

It Ain't Easy But It Can Be Done **RULE 4**

First, a sound sponsor organization is fundamental to a good housing program. In this case, it took years to get to the present positive state of events.

Second, the people who worked with this troubled project over the years came from different points of the compass, but they had a common goal, namely the provision of good quality housing for the older people of this area. They have done this housing work for farmworkers, for the homeless, for families building self-help, for community facilities, and rehabilitation and in countless other forums. They brought their varied skill sets to the affordable housing business with great commitment, in this case, to the community's elders. They specialize in housing finance, the development process, the law, the art of making government programs work, and a range of private citizen experience, all devoted to housing for their community's elders. They tend to be modest and self-effacing. This worthwhile project is a tribute to people who made decent housing happen for poor elderly people in one small community.



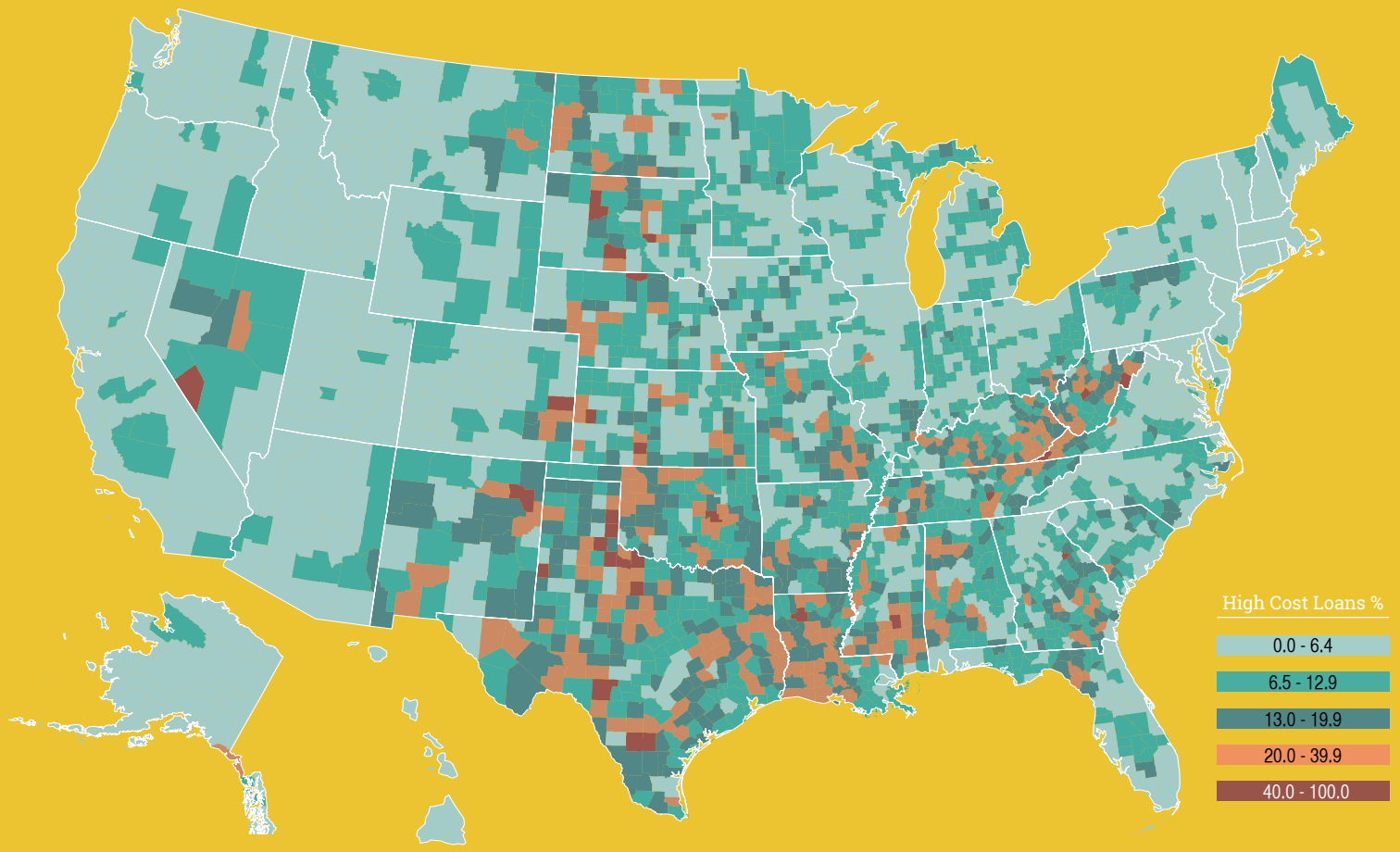
***John Frisk** is the retired Director of the Housing Assistance Council's Loan Fund*

Credits and Acknowledgements *–John Frisk and DHCD Project Manager Georgann Eberhardt were involved, almost daily, for three years of the problematic project startup. Numerous California DHCD staff and HAC staff worked tirelessly and with good humor. The "happy landing" has many parents. A key actor was Stanley Keasling, now CEO of Rural Community Assistance Corporation (RCAC). Mr. Keasling and his staff, during the resurrection of the project, was CEO of Rural California Housing Corporation (RCHC), which, with its affiliate, Mercy Housing California, was deeply involved in the recovery of a healthy Diamond Sunsrise I and II. Special thanks go to Greg Sparks and George Applebaum, now board members of Diamond Sunrise for help with the project history. Mr. Appelbaum was also the attorney for the Gray Panthers in the cited lawsuit. Many others, board members, local and state officials, and FmHA staff, made significant contributions to the survival and success of this housing endeavor.*

Mortgage Lending and Access in Rural America

High Cost Loan Originations, 2013

High cost loans have an interest rate at least 1.5 percentage points for first-lien loans (3.5 percentage points for subordinate-lien loans) higher than the annual percentage rate offered on prime mortgage loans of comparable type.



The Majority of New Manufactured Homes Are Financed with High Interest Rate Loans

High Cost Loans by Structure Type, 2013

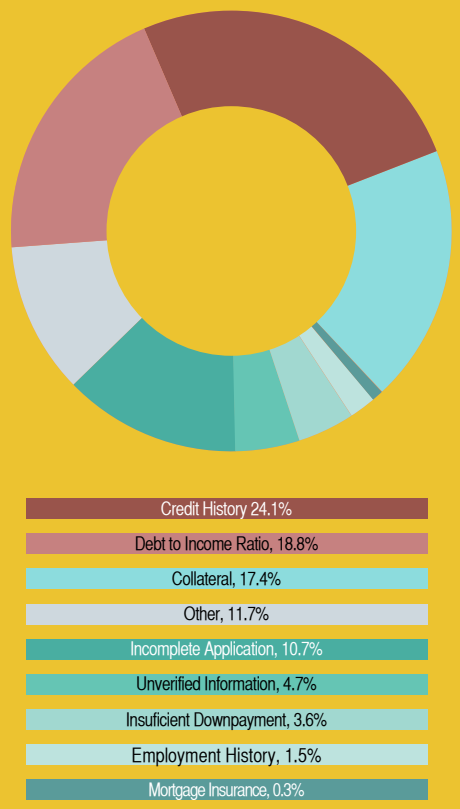
To access data on lending activities in your community, visit the Rural Data Portal at www.ruraldataportal.org

$118,000
RURAL MEDIAN LOAN AMOUNT

$68,000
MEDIAN HOUSEHOLD INCOME OF RURAL LOAN APPLICANT

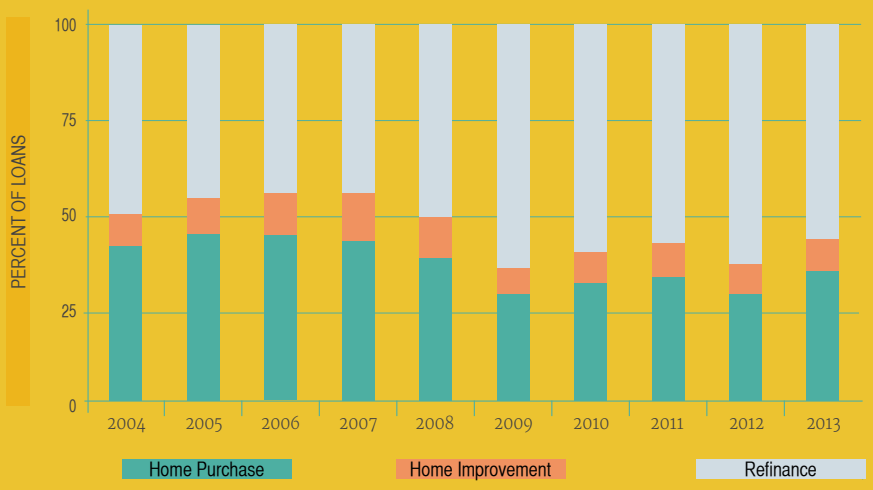
Problems with Credit Are the Reason Most Cited for Rural Loan Denials

Reason for Loan Denial, 2013



Refinancing Still Dominates Rural Mortgage Activity

Rural Loan Purpose, 2004-2013

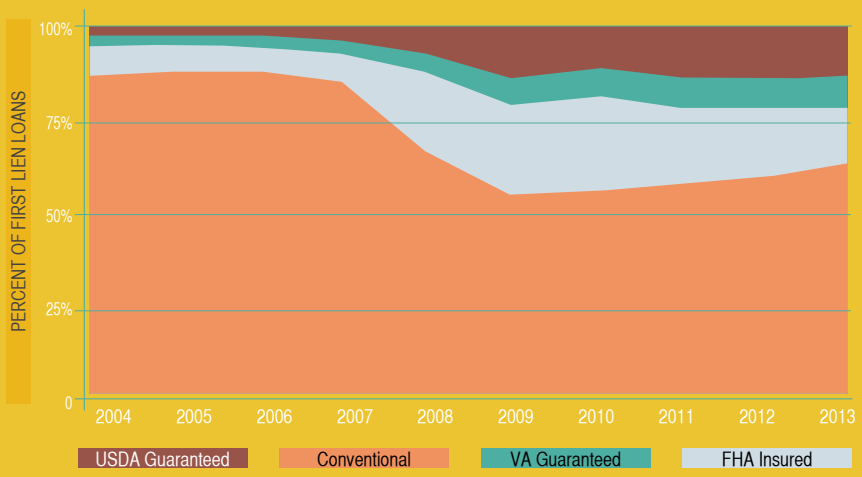


Rural Mortgage Loan Activity Decreased By Half Over The Past Decade

Rural Mortgage Activity, 2003-2013

Conventional Lending Continues a Slow Rebound

Rural Mortgages by Loan Type, 2004-2013



Source: Housing Assistance Council (HAC) Tabulations of 2013 Home Mortgage Disclosure Act Data

Always Improving, One Misstep at a Time

By Nick Mitchell-Bennett and Kathy Tyler

"I have not failed. I have just found ten thousand ways that won't work." Thomas Edison was no stranger to failures, but he took a healthy approach to mistakes.

Strange as it may sound, we like making mistakes. Often we learn more from mistakes than doing it right the first time. Since we must be risk-takers we have ample opportunity to fail. We must take risks to help those we serve gain access to affordable housing, affordable financing, education, or any of the hundreds of things we do in our work. Like Thomas Edison, we've learned not to be afraid of mistakes but to enjoy the teaching moments they offer. The trick is learning the best alternative for the next try (since some of us cannot afford Edison's 10,000 ways that won't work)!

We made plenty of mistakes together when we formed the Texas 502 Packaging Collaborative . We watched other groups in other states create these partnerships and we wanted to replicate the partnership in Texas to increase the number of USDA Section 502 Homeownership loans and increase revenue for participating organizations.

Our two organizations, Community Development Corporation of Brownsville (CDCB) and Motivation, Education and Training, Inc. (MET), have strong track records. Collectively we build and finance hundreds of homes each year, develop multi-family projects, and improve migrant farmworker housing. We educate youth and farmworkers, and launch them into new professions. We run a real estate company and Head Start programs collectively.

Too many moving parts influenced by a range of decision makers not in our control meant projects more at-risk for what might go wrong.

So when we set out to form the 502 Collaborative, we assumed it would be an easy, natural next step. We assumed wrong.

Although partnerships can be fraught with difficulties, we have had some success and the Texas 502 Collaboration survives today. But we continue to struggle getting the scale we want and need.

After stumbling through this for a few years, we can name mistakes and summarize lessons learned in three points:

- **Get the right partners.**
- **Build relationships with those partners.**
- **Do what you do best with the time you have.**

Get the Right Partners

Our first mistake was selecting too few of the right organizations. We did not do enough homework to vet the organizations we selected. We thought we had the right groups, but we were wrong. We needed high-production groups, no matter their size. We needed organizations that understood how to find clients, had staff with the skill set to package loans, and that could manage risk. We needed organizations with understanding and willingness to add loan packaging as a core business. Too many were attracted to the possibility of generating income without understanding the staffing and work required to deliver the 502 package.

We convinced state leaders about the efficacy of the collaboration. We even successfully advocated for $500,000 from the Texas Department of Housing and Community Affairs to reduce the 502 mortgages. But again, our homework was incomplete. We were not able to absorb the funding within its limited timeframe. Even worse, the USDA Section 502 funding that year came inconsistently through Congressional Continuing Resolution stops and starts, hurting our planned timeframe. Too many moving parts influenced by a range of decision makers not in our control meant projects more at-risk for what might go wrong. In our case, the dollars lined up, but the timing and partnerships did not.

Build the Relationships With Those Partners

After recruiting, training, and forming the Collaborative, we failed at fully communicating to the partners the next steps we needed to take for this collaboration to succeed. We tried to move too quickly! We held a successful 502 training, and then we went back to our daily work. The groups in the Collaborative needed more training. It was our responsibility to really help these organizations commit the time and money needed to package USDA loans. Nick went back to CDCB, making sure its staff were fruitful packagers. Kathy, having led the recruitment, returned her attention back to farmworker housing at MET. We handed over the collaboration to others' leadership for implementation far too early. Initially we did not even notice that there were no successful packagers other than CDCB. We would have noticed if we had taken the time to listen to the groups and hear what more was needed for them to be comfortable with the packaging work.

Do What You Do Best With the Time You Have

In the nonprofit world, over-reaching is a common mistake. We tend to take on too much too often. Too often we think our organizations can do it all. This 502 Collaborative project meant recruiting groups, organizing trainings, raising funds, working with USDA and the state housing agency. In short, we underestimated the time we needed to invest. We should have brought others to the team earlier with time and dedication to see this through to the end. We had each set aside enough time to get the project started, but not enough time to get it to move smoothly and see it through.

Texas Community Capital still successfully runs the program. The two of us – the dreamers and instigators creating the Texas 502 Collaborative – failed to invest the time and attention to strengthen the Collaborative during its early stages. There were plenty of obstacles to come – uneven federal funding over the years, retirements and staff changes at every level and within every organization, and changing USDA regulations. A stronger framework would have helped.

Mistakes happen; we fail; but we need to learn and embrace these failures – then move on. A sign of physical fitness is how quickly one's heart rate returns to its resting rate after stress. A sign of organizational fitness might be how quickly we learn from our mistakes and apply it to our next shot at success.

__Kathy Tyler__ has worked in the affordable housing development and finance field for more than 35 years, in neighborhood, urban, rural, and farmworker settings. Currently and for this last decade she directs farmworker housing programs for Motivation Education & Training Inc. She still makes many mistakes. __Nick Mitchell-Bennett__ has spent the past 25 years building and financing affordable housing trying to make as few mistakes as possible.

Farmworker Housing **Travails from Pennsylvania**

PathStone stayed the course through a ten-year predevelopment process and emerged a stronger real estate developer.

By John Wiltse

Adams County, Pennsylvania, is famous for the Gettysburg battlefields but less well-known outside the immediate vicinity as a major fruit-growing region with a large migrant and seasonal farmworker population. Since 1978, PathStone Corporation, based in Rochester, NY, has been providing critical housing and human services to Adams County farmworkers.

PathStone provided technical assistance to the Adams County Housing Authority for the development of the 12-unit McIntosh Court Apartments, the first off-farm labor housing community in Pennsylvania, which was completed in 1989. We also administered an on-farm housing rehab program in Adams and Berks Counties and developed several other multifamily projects which served both farmworkers and other low income families in the area.

In 1995, buoyed by the successful completion of the first USDA Section 514/516 farm labor

housing projects in New Jersey, New York, Ohio and Pennsylvania, PathStone began pre-development work for Jonathan Court. The development is the first-ever Federally funded off-farm migrant housing complex in PathStone's service area, located down the road from McIntosh Court among the peach and apple orchards of south central Pennsylvania.

At the time, PathStone was under contract with USDA Rural Development (RD) to provide technical assistance to other non-profits to assist them in developing farm labor housing projects. We secured a commitment from a local faith-based organization, Fruitbelt Ministries, to serve as sponsor/owner of the project, and we helped them modify their organizational structure to conform to the "broad-based membership organization" structure required by RD at the time. This organization was managed by volunteers with no paid staff and no housing development experience whatsoever.

This organization was managed by volunteers with no paid staff and no housing development experience whatsoever.

First Lesson Learned: Don't Try This At Home!

PathStone learned through this and a farmworker housing project located in New Jersey that the development and ownership of a multi-family housing complex is best left to organizations with paid staff trained (or at least in training) to undertake these responsibilities and with affordable housing as a central part of their organizational history and mission.

In the case of the Jonathan Court project, PathStone wound up taking over development of the project due to changes in priorities for Fruitbelt Ministries. In a similar situation in New Jersey, PathStone staff became the de facto staff for the volunteer-run nonprofit membership organization we established to own the first and only 514/516 project in that state.

The project site for Jonathan Court was an assemblage of three lots, plus two additional

parcels with existing family apartments. The existing apartments were going to be part of the project initially, but were later excluded from the deal. There was public water and sewer available and a building boom was going on in the area, so the landowner had no interest in signing our proposed option agreement. After several months of fruitless negotiations, Fruitbelt Ministries borrowed $136,000 from a national nonprofit organization through their revolving loan fund and bought the land. The lender insisted that PathStone guarantee the loan, so it's not hard to see how we wound up in the driver's seat on this deal!

For the next eight years or so, this project proceeded down a long and winding development path. PathStone had four different Pennsylvania housing directors over this period and inconsistent project management direction from the Rochester headquarters. The Pennsylvania State Executive Director provided skilled leadership for all PathStone human service programs in the state in addition to housing development, but did not have specific real estate development training or expertise.

Our lessons learned here are that change can come very slowly.

Second Lesson Learned:

Make sure housing development staff are directed and supported by experienced housing developers and provide consistent supervision and training, especially through key staff transitions.

Immediately after purchasing the site, we started to receive monthly bills for reservation of sewer capacity from the Possum Valley Sewage Authority. The lack of as-of-right sewer access was overlooked in the due diligence process and wound up adding about $120,000 to the project cost. Another expensive lesson learned!

Getting through the local approvals process proved to be more involved than anticipated, stretching out over two years. Each time we thought we were close to securing the necessary approvals, the local planning board would come forward with a new requirement, report or study that needed to be completed, each of which required the expenditure of additional time and money. We erred in not getting the full scope of the planning board review requirements up front, in writing (though some of these requirements did, in fact, change during the pre-development process).

Working with RD was also challenging, to say the least. RD interpretations of the design guidelines and requirements changed several times during the protracted pre-development stage, necessitating at least three sets of architectural drawings and many months of additional architectural and engineering work.

In October 1998, the USDA multi-family housing statute was amended to allow owners of off-farm migrant housing projects financed under its Labor Housing Program (Section 514/516) to use RD Rental Assistance funds to provide an annual operating assistance grant to the project (instead of providing individual rental assistance to each household). PathStone decided to take advantage of this new opportunity and the operating budget was revised to show the projected operating assistance in lieu of traditional RA.

In June 2003, five years after the operating assistance change was made to the statute, the National Office of RD finally released a Proposed Rule for the implementation of this change. Although the operating assistance mechanism was put into place by several RD-financed migrant projects in other states, RD in Pennsylvania was unable to process our requests for this subsidy funding.

As of this writing, PathStone has amassed operating deficits of over $300,000 from Jonathan Court over the past 10 years and RD has yet to release any operating assistance. Thankfully, RD staff have recently joined in negotiations with PathStone and we hope to have a resolution to the past due operating assistance by the time this is printed. Our lessons learned here are that change can come very slowly. at RD and that each RD State Office operates with a high degree of autonomy. PathStone had been aware of both of these facts, but Jonathan Court put a very painful price tag on these lessons!

The Good News:

The 14 apartments in the Jonathan Court project have continued to provide decent, safe housing for hundreds of farmworkers and their families over the past 10 years. The housing is operated in close coordination with the PathStone farmworker services office just down the road and our residents are often enrolled in job training programs and are receiving other supportive services. Their children are often served by the Migrant Head Start Center also operated by PathStone.

Which Brings Us to One Final Lesson Learned:

Include supportive services staff on the development team from the beginning.

Our farmworker service staff just down the road from the site could have been much more involved in the project throughout the process if they had been fully engaged by the real estate development staff.

We have been able to carry the operating deficit as a receivable on our books all these years with advances from our unrelated property management reserves. We have made many changes to the way we manage the development of multi-family housing as a result of the mistakes made on Jonathan Court but, as any experienced developer will tell you, every deal presents a fresh set of challenges and opportunities to learn from new mistakes. Our real estate developers in each state now report to the Senior VP for Housing in Rochester and are supported by a strong internal team. The PathStone Asset Management Committee (composed of the President & CEO, CFO, Senior VP for Housing and Senior VP for Property Management) also provides a level of oversight of our development projects that wasn't in place for Jonathan Court.

***John Wiltse** is the Senior Operations Director at PathStone Corporation in Rochester, New York. John cut his teeth on rural community development work at the Cranks Creek Survival Center in Harlan County, KY, as a college intern and has worked in the field for 24 years with PathStone.*

HAC Favorite Mistakes

When cutting and pasting from an old proposal to prepare a new application to a potential funder, I neglected to do a successful find-and-replace on all uses of the name of the original funder. So after a number of references to the "ABC Foundation," my eloquent screed concluded with "...support from XYZ Bank will be vital to ...." So what's really vital is good proofreading.

Joe Belden, HAC's Deputy Director

Underestimating Bureaucracy in Bureaus

By Marvin Ginn

Cutting through red tape on tribal lands comes with unique pitfalls

As a community development officer with a regional bank, I worked to begin mortgage lending on Tribal Trust Lands. I thought the process would be very similar to 'fee simple' lending and started getting clients approved for the mortgage. Well, this went downhill really quickly. I determined that we would need mortgage codes in place for this process.

When you are dealing with Tribal Sovereignty, there are many issues that can come up. A mortgage code must be in place and accepted by the different branches of the federal government in order for mortgage lenders to have any type of recourse. These codes lay out the policies and procedures for leases, eviction, lean priority and foreclosure.

What I had not considered is that many of our tribal leaders did not understand that this process would never endanger lands belonging to the tribe. Two different tribes made this process difficult for me. One of the tribes required 100 percent approval from the tribal council before the code could be passed. This approval process involved presentations over several years to the council before we could secure the necessary votes. The challenge was the elders' mistrust of the system and fears they might lose their land to these mortgage lenders. I spent many long days at the tribe getting this done.

The other tribe provided a similar challenge, but I was working directly with a tribal member who had already been approved for a loan, rather than a full council. It still took us three years to get the codes in place before we started building. To this day, there are still a few tribes that do not have mortgage codes in place.

This issue was further complicated by separate documentation for the home sites. We were mainly dealing with HUD, and we had a lease that covered their requirements. Little did I know, the HUD lease documentation was not sufficient for USDA or VA administered loans.

I thought the process would be very similar to 'fee simple' lending and started getting clients approved for the mortgage. Well, this went downhill really quickly.

***Marvin Ginn** is Executive Director of Native Community Finance (NCF). NCF provides financial education, community oriented affordable loans, VITA/TCE tax site, IDA program, and mortgage assistance services. NCF is one of three certified Native Community Development Financial Institutions in New Mexico.*

We then had to write leases that included the concerns of each department of the government. Yet another complication were National Environmental Policy Act (NEPA) requirements. Again, we encountered the challenge of different reporting formats for each department of the government. Today, things have changed and the process is more streamlined. But improvements are still needed.

We worked with HUD, USDA, VA and the Bureau of Indian Affairs (BIA) to adopt the same format on the NEPA documents. Most of our leases are accepted by each department, but we still have challenges with wording in some of the leases. I can now close a loan within six to nine months which is far better than my first one which took me three years. I know this still sounds like an incredibly long time, but we are making progress and the effect of having affordable housing in Indian country is positive.

HAC Favorite Mistakes

About 15 years ago HAC hired a well-qualified young researcher. When she was asked to travel to a rural area for a research project, she mentioned that she didn't have a driver's license and wasn't very comfortable driving. It hadn't occurred to anyone to ask about that in the job interview; I guess we all assumed everyone has a license and knows that rural travel includes driving rental cars. The trip (and research) was postponed while she took driving lessons and got a license.

Leslie Strauss, HAC's Senior Policy Analyst

Trust AND Verify

By Wilbur Cave

A seemingly small oversight can become a big problem quickly

We recently found ourselves in a very awkward position because we failed to verify the household income of a family wanting to continue to rent a property that we purchased using HOME funding. Normally, household income is one of the very first things done to determine eligibility for U.S. Department of Housing and Urban Development (HUD) HOME-funded projects. For some unexplained reason, the income was not verified, but a commitment was made to the family to continue renting the property after it was acquired and rehabbed. The family has been renting the property for 14 years prior to our purchase and rehab.

So how did this situation evolve? The family came to Allendale County ALIVE, Inc. seeking housing counseling because the landlord indicated that the property was going to be put up for sale. Having lived in the house for more than a decade, the family did not want to move because they had become attached to the house and the neighborhood. When the family approached us about housing counseling, we were looking for a property to acquire and rehab. The family knew that they needed some time before they could purchase the property and was concerned that the house might be sold while they were preparing for purchase. We were seeking a property to purchase if it could be acquired and rehabbed within our $35,000 limit. The family

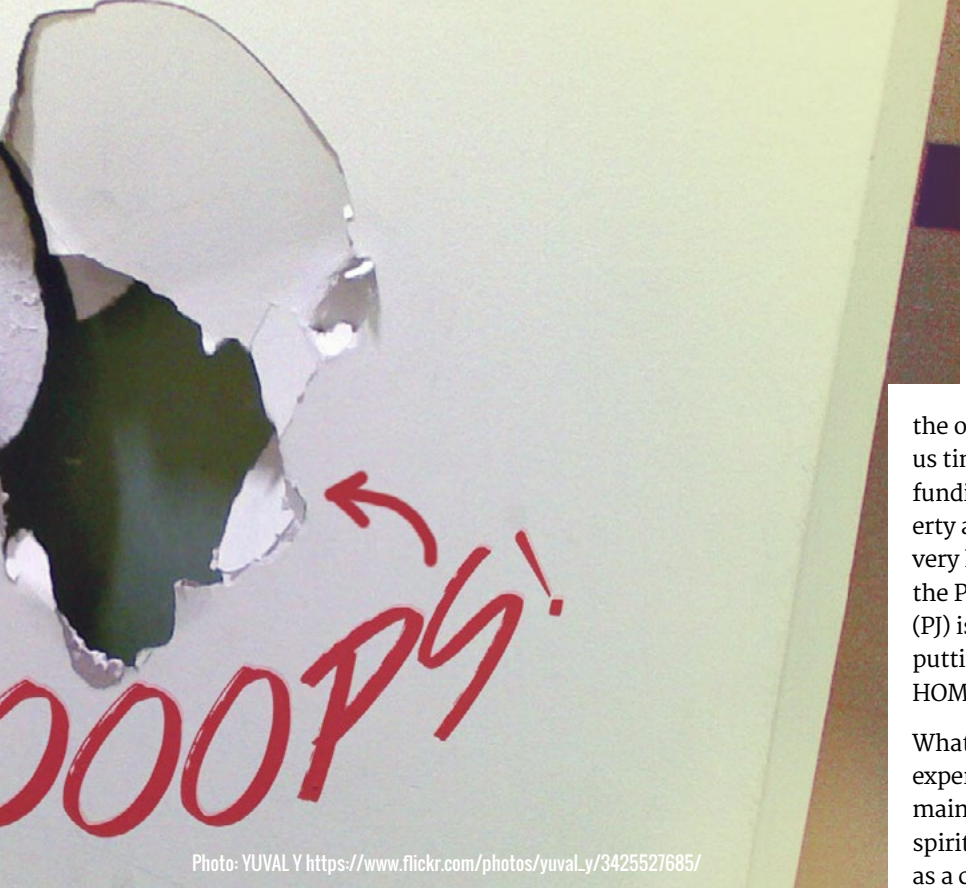


Photo: YUVAL Y https://www.flickr.com/photos/yuval_y/3425527685/

encouraged us to contact the owner to see if something could be worked out. We contacted the owner and he agreed to sell the house at a price that would work within our HOME limit. In the excitement of trying to ensure that the family could continue to live in the property that they had lived in many years, we forgot to verify their income.

The failure to verify income became evident when the rehab was completed and we had to qualify the family and, of course, they were over the household income limit. Although legally, we could require them to move, we felt an obligation to work with them to find a compatible rental property since it was our fault that we didn't conduct the proper verification prior to committing to continuing to rent the house to them.

For those who wonder how it is that we were able to acquire and rehab a property for $35,000, the answer lies in the fact that Allendale County, SC has the 10th highest rate of poverty among all counties in the United States. Along with the many negative factors that are often present with a high rate of poverty, low property value is also common. Even with low property values in our community, the supply of homes that can be acquired and rehabbed at the HOME limits are few and far between. Nevertheless, we have been fortunate to find properties.

How did we resolve our problem? We decided that we had to find a compatible property for the family to rent. But this was going to be difficult because there was nothing available at that moment. However, a short time later, we identified four properties that the owner would be willing to work with ALIVE to acquire. One of the four properties was just the right size to accommodate the family, and the house was located in a nice neighborhood. The house needed a minimum amount of work to be move-in ready and the owner was willing to allow us time (one year) to securing funding to purchase the property as a rental. The family is very happy about the house and the Participating Jurisdiction (PJ) is happy that we will soon be putting an eligible family in the HOME unit.

What have we learned from this experience? We have always maintained that there is a spiritual element to our work as a community development corporation in an environment that is rural and has a high rate of poverty.

Had it not been for the availability of the property at the right time and the willingness of the owner to work with ALIVE, we would be in a difficult situation, and would have likely had to return the $35,000 back to the Participating Jurisdiction. Little things can trip you up and cause significant problems that can be very difficult to solve. We are thankful that we prevented an ugly circumstance, not to mention the possible damage that could have been done to our organization's reputation that has taken 16 years to cultivate and develop.

Wilbur Cave **is the Executive Director of Allendale County Alive in Allendale, SC.**

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