

Now that you have a
Community Loan Fund...

How do you keep it alive?

Lessons from just past
the start-up.

Nancy Wasserman
Project Report
CED Program
January 1990

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Final Project Report
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Given that my project took a number of unexpected turns, the suggested outline does not always fit, so I took some liberties with it...

Preamble

As I began my project work, my focus was on a particular dilemma faced by the Board and staff of the Vermont Community Loan Fund (VCLF), where I am the Fund Manager and was the sole employee. Since the Board had continually talked about expanding our services beyond affordable housing loans and assistance into economic development (ED) loans, I wanted to take a look at whether or not this was an appropriate focus for VCLF. I wanted to answer the question of "Whether or not there was a need within our current service community (the State of Vermont) that VCLF could realistically meet given the organization's goals and resources?"

A feasibility study done a year before I began my exploration went to municipal community development offices and local industrial development councils - neither of which are likely to be strong proponents of development of the informal economy or alternative workplace models. This survey did however cite a desire for this type of program but was not specific in what type of needs it would serve. A preliminary survey of the Board of Directors indicated different and contrary interests in the purpose of the financing, the type and size of organization to be financed. Since the Board reflects a variety of interests and since VCLF is working in a state with a variety of existing programs, it seems to be best to proceed by identifying what niches there are to fill and then determining if VCLF wants to tread in those regions.

Initial Project Goals and Methodology

My specific goals in undertaking this project were to:

- 1) Understanding of economic development financing as it currently exists in the state of Vermont.
- 2) Understanding of the practice and pitfalls of small business lending by community development loan funds.

- 3) Assessment of how/if Vermont Community Loan Fund should address this need.

The minimum that I hoped to accomplish was:

- 1) A written assessment of available ED financing in the state of Vermont.
- 2) A written assessment of the problems and pitfalls of small business lending as practiced by at least two community lenders.
- 3) A description of what type of funding needs exist for economic development in Vermont. An analysis of how/if VCLF might address those needs.

My methodology was to interview individuals around the state who were involved with economic development, alternative financing and alternative businesses. Knowing what the Loan Fund's goals were, I would then analyze the responses and come up with a recommendation for the Board. If the recommendation was to develop an ED lending program, I would involve the Board in strategic planning and development of the program. I did not plan for the possibility that my analysis might suggest not undertaking an ED lending program.

Results

What I discovered by about June of the past year was that VCLF's potential role in ED financing was in fact quite limited. (See attached concept paper) The only arena that made sense for VCLF was to look at assisting projects which would help to assure the perpetual affordability of the opportunity to farm. Although my Board agreed with my analysis, we all concurred that the need for our efforts to be concentrated on affordable housing continued. In effect, the universal attitude seemed to be that if the right situation came along we might consider an agricultural-type of economic development loan but that for the time-being housing was VCLF's focus.

In response to this result of my potential project, I more or less flailed in an effort to put together a 'project' for me to work on for the remainder of the CED program. I offered a number of ideas to the Project Advisors. I came up with concepts of what might be accomplished within the period of a few months. In short, I tried to fit some of what I was doing at VCLF into the framework of a CED project. None of it really took hold.

Finally, with a feeling of desperation at the November class, I asked Michael if my project could be what it takes to keep a Community Loan Fund alive for a year and

a half - especially of that year and a half happened to be the initial years of the Loan Fund? Luckily he responded in the affirmative...

The following is an outline and analysis of the project as I should have structured it...

A. Definition of the Problem

The Vermont Community Loan Fund (VCLF) had been founded by a number of housing and economic development advocates who had heard of ICE's Revolving Loan Fund. This Fund seeks below-market rate investments from socially-responsible investors and directs these funds towards community needs especially affordable housing. Furthermore, the ICE Fund challenges people to look at the ways that they use their money and to examine our attitudes about community, property, equity and the ways in which necessities like housing were being treated as commodities in the marketplace.

The founders felt that the community lending concept could be well utilized in a state like Vermont which was seeing affordable housing disappear and which prided itself on its social consciousness and had more than a few socially-minded folks with substantial wealth. The original incorporators of the Fund managed to pull together community development officials, non-profit housing developers, activists, a state legislator, housing and low-income advocates, a legal aid lawyer, some folks who worked in appropriate departments of the state bureaucracy, a local minister and a socially-minded investor or two as the original Board. They secured funding to do a feasibility study which was completed by two members of the Board. With the feasibility study they were able to secure financial support for the first year of operations.

Despite my lack of experience in housing and financial management, they hired me in March of 1988 - I offered connections with an important area of the state, skills in PR and a lot of enthusiasm for the work at hand. We began to capitalize the Fund in June. By September, when I started the CED program, we had about secured about \$70,000 in loan capital and \$30,000 in permanent capital for a total portfolio of \$100,000. We had committed two loans totalling \$10,000 and were considering two new applications for an additional \$40,000 in loans.

For me the root causes of the increasing need for affordable housing was the spiralling land values in Vermont brought about, in part, by the desirability of second home properties in Vermont. Newer technologies which permitted upper-level

information and service professionals to live in Vermont while receiving city salaries also helped to increase the cost of housing. Finally, the reduction in the size of families and the maturing of the baby boomers all added to the demand for affordable housing in Vermont.

B. Project Goals

Essentially, the challenge facing us was defining who and what VCLF is and what it would/could become. The major goals were to keep VCLF:

- 1) afloat financially,
- 2) active and viable in a changing climate,
- 3) responsive to the needs of both our investors and borrowers and
- 4) to increase the amount of capital in the Loan Fund and the number of loans.

The following are the major questions we needed to address over the past year and a half. They are also the questions that will be faced by any Community Loan Fund within its first two years of operation.

- 1) What is the CLF's niche given the political climate in which we are working?
- 2) How can the CLF attract more borrowers?
- 3) How can the CLF continue to attract new investment particularly in the face of an increasing awareness of socially-responsible investment within the mainstream?
- 4) What is the appropriate way to work with conventional lending institutions i.e. banks, housing finance authorities, etc.?
- 5) How and where does the CLF want to grow as an organization?

C. Methods

Essentially we utilized two methods - Board policy setting whenever we needed it and reactive responses to changing conditions. VCLF already had a history of being a solid organization with active Board input and advice. Board members were frequently chosen for the different insight they could bring to our meetings and they were respected as they raised their concerns. Since two members of the Board including the President and one of the original founders who has since resigned,

worked in the same offices, it was generally quite easy to get instant feedback on many less pressing concerns.

We also talked a lot to Board members and to other loan funds and we asked questions of our lenders and borrowers. We tried to listen and respond to their suggestions and advice.

Some specific procedures were scheduling a strategic planning session to assess what our role should be in the housing community and where we should seek initial financial support and investment capital. We also developed a comprehensive business plan in order to approach banks for multi-year commitments of support.

D. Results

Our results were generally quite good. In terms of numbers, dollars and interest, all have increased. We ended 1989 with sufficient operating funds to carry us through the first six months of 1990, as good as one might hope for in the world of non-profits. We have secured support from two of the state's major banks and are continuing to approach a number of the other banks.

We are as active as we have ever been in terms of borrower activity. The past few months have seen an average of three completed applications per Board meeting as well as a number of other borrower contact. We have hired a technical assistant who is beginning to work with resident groups and helping them and community groups develop affordable housing projects. Since much of the support for affordable housing has come from the quasi-public Vermont Housing and Conservation Board, we need to stay abreast of how this group fares during the legislative session. As the state's budget deficit looms larger, VCLF's role may again change.

Increased investor activity and confidence seems apparent since many of our investors have increased their investments, suggested others who might be interested in the Fund and/or renewed their investments.

In the area of loan capital, we have done quite well. The fund currently has over \$520,000 in investments from 53 borrowers and \$81,000 in permanent loan capital. As of this month, we will have closed on close to \$550,000 in loans to 18 borrowers. The major push here is to secure new investment capital in the Fund.

We also expanded the staff from one to two and are about to face our first real changing of the guard in terms of the Board of Directors. On a less positive note, the

Board seems to have less participation in the organization than they did a year to a year and a half ago.

E. Analysis/Conclusions/Recommendations

My first recommendation is in regards to people trying to determine an appropriate CED project. My mistake was trying to define a specific issue within the framework of the work I do. Managing a community loan fund is in and of itself a project. I honestly wish I had structured the project so that each term I defined the Loan Fund's current concern and then defined how I would go about addressing that concern. As a lesson for the future, I want to structure a regular semi-annual mini-SWOT - a time when the staff and the Board can step back from the day-to-day management and organization and fund building and attempt to assess what we are doing and where we should be going. My concern is that in the day-to-day work we forget to assess the bigger picture.

The obvious conclusion I can draw from the development of VCLF over the past year is that it was an idea that was ripe for Vermont. Given the challenges we faced, the introduction of Vermont National Bank's Socially Responsible Banking Fund, and the increased interest around the state in affordable housing, VCLF has been quite successful in channelling invested funds towards affordable housing needs. In making recommendations for others deciding to develop a community loan fund, I want to emphasize the value all of the groundwork that was completed by the Board prior to hiring a Fund Manager. They had already formed an organization, developed by-laws and loan policies and procedures, conducted a feasibility study and secured first-year funding. Most importantly though, they had developed a healthy respect for what each individual member offered the group as a whole. To this day, Board members indicate that they have had some of the most thought-provoking and enlightening discussions at our meetings

Defining our niche has proven to be more of a challenge than one might have thought. In actuality, Vermont has some of the most innovative and supportive programs available for developing community-based affordable housing. The Burlington Community Land Trust is one of the oldest in the country. The City of Burlington is incredibly supportive of affordable housing both financially and through its policies. The Vermont Housing and Conservation Board which provides grants and loans to projects which create perpetually affordable housing and/or preserve

conservation and agricultural lands is unique within the country. On the less advantageous side, Vermont's housing hierarchy is rife with turf issues. There are, in actuality, four fiefdoms, each with their pots of money, their pet projects and their own policies. The State Housing Authority and the Housing Finance Agency have each established separate non-profit organizations to respectively acquire at-risk housing projects and develop projects which will utilize the low-income housing tax credits. Meanwhile, the Housing and Conservation Board, which is inextricably linked with the Loan Fund (their staff got us going, we share office space, philosophies, etc.) has helped to develop a community-based network of housing developers.

The problem, as we see it, is that there is a tremendous amount of energy and momentum towards developing the capacity to develop housing on a local level, yet no one is willing to provide the technical assistance to help organizations get established, or bring projects on-line. This is clearly a place where VCLF could be involved but initially the Board was hesitant of getting involved in what they perceived to be a "black hole" Over the past year their perception has changed somewhat and they have finally determined that we should be providing TA in organizational and project development. They came to this decision as a result of two occurrences. First, many members of the Board work for the more experienced housing non-profits in the state. As they strived to develop projects outside of Burlington, they recognized the lack of sophistication in other areas. Secondly, a few Board members talked with Julie Eades of the NH CLF. She stressed that their best (and safest) borrowers were the groups with whom they had worked the most.

In retrospect, Having Julie meet with the Board earlier might have changed their perception earlier. However, I think some of the hesitation was simple growing pains and some was trying to get a feel for where to be in a fast-changing environment. The Housing and Conservation Board has only been around for three years and has had a large sum (\$20 million) to spend (at least for Vermont) over the past two.

In regards to defining our role vis a vis economic development, I think the way I approached it was the right thing to do. This is due in large part to the fact that we have a number of Board members who were quite interested in seeing us pursue economic development. Going through an objective assessment of where things were and the specific (and miniscule) role VCLF might play helped them to let go of

financing economic development per se for the next two or three years. The financing of agricultural projects remains to be seen.

Much to our surprise, attracting borrowers initially proved to be far more difficult than finding investors. Would be CLF's would be well-advised to start promoting their services to borrowers as soon as possible. We had surveyed potential borrowers as part of the feasibility study, sent them a letter about the Loan Fund soon after I started and went to visit a number of them within the first few months. Initially, those groups who were referred to us by ICE or with whom I had previous contact were the first to come in. Later, the groups with whom I visited applied for loans. Once people knew we had the capacity to make loans in the \$50,000 range and that we could respond relatively quickly, it seems that we were taken more seriously i.e. it was worth the time it took to prepare an application. VCLF was fairly successful in securing investments over its first year of operating. Since borrowers did not come in quite as quickly, we eased up on finding more investors until we could generate some loans. Now, just within the past two months, we have committed almost all of our funds. A few lessons here: 1) be sure you visit with those groups you would most like to work with; 2) Never ease up on informing new potential investors - you can always call in the chips when you need the investments. I eased up since we were flush and now I am having to play a hard game of catch-up; 3) publicity helps - the more people heard about things we did, the more they were likely to bring a fundable project to our attention and 4) being able to put out bigger sums of money really helps.

In talking with Julie Eades of NH CLF, the way they chose to attract borrowers was by creating them. Part of our decision to pursue technical assistance and hire an additional person is based on this notion. To this end, we also developed a cooperative conversion guide for mobile home parks. So far, developing the guide has been more useful as a staff exercise than a practical training manual but that should change within the next month or so as Brian Pine, our Project Coordinator begins to get out in the field more.

Without question, VCLF's biggest and most unexpected challenge came from Vermont National Bank's Socially Responsible Banking Fund. We had to determine how we would respond to the bank, whether or not to assist them and what effect a bank promoting socially-responsible investment (SRI) would have on us. Our strategy was to invest in the Fund, work with the bank to help them address affordable housing in a meaningful way and try to define our product differently than the bank. Obviously, we were no longer the premier SRI for affordable housing - suddenly we

could no longer use the phrase SRI - we were forced to redefine what we did and why we needed lower interest rates when the bank was willing to pay regular market rates. So far, I think we made the right choices. Without question, the marketing class was timed perfectly to address this dilemma.

VNB's effect initially, was that we saw very little new investment for about six months. After talking to our focus group, our approach was to redefine what we do as community investing, talking about how it is a cross between charitable giving and investing. We pointed out how we offered some of the returns, financial benefits and security of an investment and the social benefits, competent management and appropriate use of funds they expect from a charitable organization. We refined our presentation so to highlight what people were looking for. The long-term effect has been 1) we have sharpened up our marketing strategies and our image much earlier than most CLF's and 2) many of our supporters have seen VNB's limited ability to be socially responsible in regards to housing. We learned that our investor community is real savvy on just how we help housing. We are able to agree with other's observations without being the bad guys who point it out. (an important distinction in Vermont...) A secondary benefit has been that we have been able to push the bank in other arenas - e.g. no balloon mortgages, 5-year reviews instead of 1-year adjustable rates, reduced closing costs, etc. Finally, as VNB considers pursuing below-market rate deposits, we can raise the concern regarding the effect on us and they at least listen and take us seriously.

I think the only thing I might have done differently, if possible, is to have taken the Marketing course about two months earlier. At one point, I had thought about promoting the SRB Fund in our newsletter but didn't mostly due to a lack of space. In retrospect, I am glad I didn't. In fact, just the opposite is occurring - they are promoting us in their next newsletter. I did learn that we could do effective guerilla marketing without pointing the finger.

The whole issue with VNB raised the entire issue of how CLF's should work with banks and other lenders. Two years ago the Vermont legislature passed interstate banking legislation with what community activists felt were some pretty strong community reinvestment guidelines. (In reality, they haven't been as tough as people thought.) A year ago, the first acquisition occurred. Knowing that the timing was right, the Board made the decision to approach the banking community for multi-year commitments of support to the Loan Fund. The decision was made for a couple of reasons. First of all, when one talks about seeking corporate support in Vermont,

there are very few options besides the banks. Secondly, there was the obvious CRA connection. Third, we are honestly bringing CRA deals to their attention. Fourth, affordable housing is a very hot issue in Vermont because a lot of well paid folks cannot afford to buy the homes that are available.

Our approach to the banks has been to prepare a comprehensive Business Plan along with a cover letter signed by one of our Board members. We have been able to meet with senior officers and present our story. After thinking we had one in the bag, the first bank turned us down. Despite the rejection, we continually converse with the bank and seek their advice and our direct projects their way. Since then, we have approached four banks - three have come through and one is considering the request. Of the three positive banks, two provided what we requested. We are scheduled to approach more members of the banking community throughout this year.

The approach has proved to be quite successful in ways beyond the simple financial considerations. The Loan Fund is taken seriously by the banks we have approached and we are seen as a bridge between the banking community and housing advocates since we are able to speak both languages. As a result, we can contact the banks with the advocates concerns before they are splashed across the paper and we can argue some situations on behalf of lenders with a great deal more credibility e.g. negotiating foreclosure provisions in affordable housing covenants.

I have also chosen to actively participate with the Vermont Community Reinvestment Association. While this has proven to be a delicate maneuver, it seems to be beneficial all the way around. I make a point of not being a CRA-spokesperson yet VCLF can provide a knowledgeable voice when we are in face to face meetings with the banks. It's been an interesting education - the banks are far more afraid of bad press than face-to-face criticism. As a result, they appear willing to hear face-to-face concerns. I may be overly optimistic here - check back in a year.

The final option we have chosen with the banks is to discourage them from making investments in the Loan Fund. The thinking behind this was that if they have low-interest funds to lend, they should a) do it themselves so they learn along the way and b) loan a whole lot more than they would place with the Loan Fund. As time goes on, this may change but so far its worked...

The issue of planning for how and where we want to grow as an organization is the area where we have been least successful. Over time, the Board has participated less and the staff has done more. This seems more to have just happened than to be a planned occurrence. New investments need to come from Board-initiated contacts

and these subtle changes have me a little concerned. Likewise, the fact that at our next Board meeting, three of our original and instrumental Board members will be ending their terms - two as a result of conflicts of interest - means that the Board can either rally to a new commitment or pan out. Clearly the next step is to search for ways for the Board to become re-inspired and for them to renew their commitment to the Fund.

If I did it over, I think I would have checked in with our Board members more frequently. I had plans last summer of trying to meet with each one to gauge their interests and concerns. That got lost in a variety of more pressing concerns and I am now feeling as though it should have taken a higher priority. The good news is that I can use school as an excuse and get the ball rolling now that I am done with the CED program. The other step which seems critical is convening our newly-formed Long-Range Planning Committee and finding ways to keep the retiring Board members connected to VCLF.

In regards to staff growth and developing a healthy workplace, it has been an interesting education. After more than ten years of being self-employed or the sole employee, I am having to learn how to work in a multi-person environment. It is an interesting dilemma since I am committed to a collaborative workspace and yet I have established the systems and work patterns, know more information and have more experience. It has been a challenge to me to try to convey that information in a way that is useful and guiding. It has also been a challenge to make sure that the Project Coordinator has sufficient work and sufficient knowledge to complete it without becoming frustrated. Luckily, I hired someone who had previously been a job trainer and is bearing with me as I learn how to work in a collaborative supervisory role...

Appendices

Sample Business Plan submitted to banks

Technical Assistance proposal

Job Description for new employee

Economic Development Financing

December 89 list of borrowers

list of where \$ from

List of Affordable Housing Needs provided to banks in CRA discussions

Newsletters from past year

Guide to Conversion of Mobile Home Parks