

Sweat Equity: Housing Assistance in the Downturn

by the editors

For Judi Patrick, the associate director of CRHDC, securing government and foundation funding for rural program activities is an ongoing challenge.

IN AN ECONOMIC DOWNTURN THAT BEGAN WITH housing—the subprime mortgage foreclosure crisis—housing and community development groups have a special lens for these times. It is evident in the vision, plans, and foresight of Judi Patrick, the associate director of the Colorado Rural Housing Development Corporation (CRHDC). In the San Luis Valley, which is the southern, agricultural portion of the state, CRHDC's focus is homeownership through subdivision development, self-help sweat equity and other forms of self-help housing, and migrant farm-worker housing. From metro Denver to Colorado Springs, the organization, operating on a \$2.1 million budget, promotes homeownership through homebuyer education, financial literacy training, help for potential purchasers to access United Way individual development accounts, education on home maintenance, purchase and repair of foreclosed properties, and financing for first-time homebuyers, including lease-to-purchase program assistance.

The Urban/Rural Thing

Almost four decades old, CRHDC serves both urban and rural communities across the state. Accordingly, CRHDC plans to change the word *rural* in its name to the word *resource* because

of the difficulty in raising money for what is perceived as an exclusively “rural” housing organization. But even plans for the name change have been delayed because of the timing of the economic downturn. Securing government and foundation funding for rural program activities is an ongoing challenge for Patrick and one she takes very seriously, not wanting to abandon the communities that CRHDC serves. This can be difficult when funders are headed in another direction. One foundation suffering huge endowment losses has already alerted CRHDC that funding of the organization's rural financial literacy programs will end in 2010 as the foundation restores its urban focus.

On the government side, first-round funding of the Neighborhood Stabilization Program (NSP) cut out rural areas, because the concentration of foreclosed homes is in the cities. But as Patrick notes, a small number of foreclosures in a small rural community—possibly five of 500 homes—can destabilize the local housing stock, a problem that urban funders may not confront. So Patrick's foreclosure counseling pitch, for example, calls for serving urban and rural communities together. “If we didn't have the urban areas, we would be hard-pressed to support rural [ones],” says Patrick. “They don't have as many people;



The organization's ability to stave off extreme financial difficulties thus far reflects foresight.

they don't have as big a voice." Nonetheless, going forward, funding for rural communities remains a huge challenge for CRHDC.

Timely Investing to Plug the Leaks

Patrick has future plans A, B, and C, with C being, "Oh my God; we can't bring in one dime." But thus far, the organization hasn't had to resort to Plan C; it hasn't closed offices, it scaled back staffing by not filling only one position (which is "not something we enjoy," notes Patrick), and it has distributed that slot's loan-servicing functions between two other departments.

The organization's ability to stave off extreme financial difficulties thus far reflects foresight. "We're pretty proactive with looking at the markets," Patrick notes. "And because we saw this whole housing debacle, it looked like this was going to happen, and there would be these foreclosures, we did build up reserves, and right now our programs are just supporting themselves, treading water, or having to dip into those reserves. We feel fortunate." As a result, reserves have decreased from about \$1.6 million to roughly \$1 million, but accessing the monies wasn't simply for operating expenses. Patrick was farsighted enough to pour \$200,000 into a distressed property CRHDC owned to make it salable. "With the economy, we needed to sell it. Otherwise it would eat us alive." In short, she says, "If we didn't have reserves, we wouldn't have made it. We would have had to do a lot of layoffs and close one of our offices. . . . Still, we don't want to use up all of our reserves," she emphasizes.

Program Redesign

Adjusting to the economy also requires altering program models. Patrick reports that CRHDC now emphasizes delivering first rather than second mortgages as a program option, because the organization can earn better fee revenues on first mortgages. "If we supply first mortgages, we will earn more and still be below market and still make it a good deal for the homebuyer," says Patrick. The organization's lenders can provide low-cost loans that CRHDC can package and provide to homebuyers.

Additionally, drawing on two years of national research on lease-to-purchase programs the

organization foresightedly instituted a "lease purchase" (or lease to own) program for potential homebuyers. This combines pre-purchase counseling, 300 hours of sweat equity by program participants, and a \$5,000-per-unit investment from NeighborWorks America. Even if two out of 10 lease-to-purchase deals fall through, this program model prevents the organization from losing money. Since CRHDC doesn't get its developer fee until properties sell—which takes two years of work by homeowners and the organization—the objective of Patrick's program design is clear: to serve community members in need of housing while not breaking the organization completely. "We cannot undertake an activity—or too many activities—where we break even or lose funds," Patrick says.

Agility and Healthy Partner Relationships

Some government programs have posed problems for CRHDC's focus and program mix. Patrick and her colleagues in the nonprofit housing sector were stunned and disappointed when the state's housing division denied nonprofits access to the Neighborhood Stabilization Program funds available for the redevelopment of foreclosed homes. Despite that, Patrick has not relinquished CRHDC's role in that crisis and is now using "EQ2" (or Equity Equivalent Investment) monies from banks to continue to intervene in the foreclosure crisis.

This evidences the organization's adaptability through its nurturing and maintenance of relationships with multiple players. Despite the downturn, the organization has maintained a positive relationship with the banks—allowing it to subsidize acquiring and rehabilitating these bank-owned "REO" (or real-estate owned) properties. Urban or rural, CRHDC targets getting vacant foreclosed properties occupied before they begin to leech value from their communities in all the predictable ways.

The organization also works its relationships at the federal level, developing a relationship with the Department of Agriculture, whose housing programs (such as the 502 program) may be difficult for potential home purchasers (and nonprofits) to access. But USDA will work with homeowners in the program, giving forbearance

for up to 12 months, “which helps a family get back on its feet,” Patrick says. “They have been wonderful to work with. They’ve been the best lender for the rural economy, because they get it.” Patrick cites the example of sharply reduced operations of a starch-producing plant in rural Colorado (where potatoes and starch are important products). “The rural areas have been hit very hard,” Patrick says. “They don’t have the business economy to spring back up. When the starch plant reduces operations, the impact from layoffs is gigantic on an agricultural community and people lose their homes.”

Importance of Networks

The foreclosure problem is a tsunami that, even with good planning, has swamped community development corporations. In early 2007, CRHDC unveiled its foreclosure prevention program. When the program was announced in the newspaper, “the first week we had 200 calls, and we were panicked.” NeighborWorks provided about \$150,000 in funding assistance to CRHDC. NeighborWorks was the designated entity for federal foreclosure mitigation counseling funds, most of which runs through network members. But more important, as a national network of organizations, it provides technical and financial support for operations and development, giving CRHDC options that unconnected organizations lack.

“We have to get very creative,” Patrick says. “Thank God we have NeighborWorks, because they are a consistent supplier of money. We can use the NeighborWorks money to support our rural [communities] when we can raise [other] money for our urban programs.” The importance of CRHDC’s links to networks is consistent with other crises, from September 11 to Hurricane Katrina. “We’re fortunate, because we’re a member of NeighborWorks America, and that helps us, because they are coming in with a little extra money to cover overhead,” Patrick says.

Hindsight Is 20/20 for 2010

With foundations, the story is sad but obvious. “The foundations, they have cut back, and when we apply to them, we have to do it their way, we have to tell their story,” Patrick says. “It’s a little

misleading to think that way. But right now, we have to be so tuned into the foundations and what they can or cannot do. For 2010 that means, ‘Expect very little,’ so we’re trying to gear up for 2010 and retool our operations.”

In contrast with the foresight behind the development of the lease-to-purchase efforts, CRHDC’s lack of individual donations is a problem that Patrick wishes the organization had better prepared for. As she puts it, “We have never really gone after individual donors, and shame on us. Now that we see that that is an area where we should have been focusing, we’re trying to build some relationships. But that’s something for the next five to 10 years, and it’s hard to do. It’s not going to be something that saves us from this economic downturn, but the next one won’t catch us so off guard.” While CRHDC has done well with funders, Patrick knows that diversification is important. “We’re more dependent on government funding than we used to be, and we still have strong bank partners,” she says. “But some of those that we used to depend on are going to be reduced at best. Our dependency on bank funders and foundations could be an Achilles’ heel in light of this downturn, an enormously valuable lesson to learn in fundraising.”

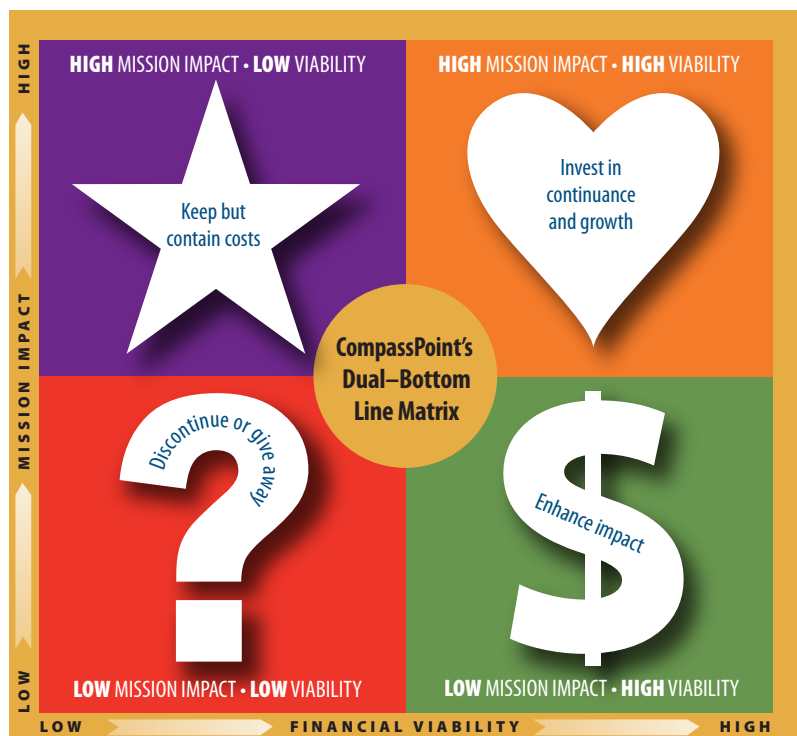
Like the lesson of individual fundraising, Patrick recognizes that today’s solutions address not only the current economic climate but also the next downturn, and the one after that. “As bad as things are right now, this is really a great time to learn,” she says. “There are so many lessons coming out of this, so many things I wish we had done differently so we would not be feeling this that much. I wish I would have known there would have been so many foreclosures, that it would have been so overwhelming. We had the foresight to build up reserves, but I wish we had known how much we would have to live off them—and just the lessons of working with government.”

Balancing Mission and Money

Going forward, Patrick knows that the future won’t get easier but harder. “We can’t depend on being taken care of by anyone—not government, not foundations,” she says. Strategically, she describes planning for the future this way:

“We can’t depend on being taken care of by anyone—not government, not foundations.”

—Judi Patrick



Source: Compasspoint's Dual-Bottom Line Matrix, adapted from Michael Allison and Jude Kaye Wiley's *Strategic Planning for Nonprofit Organizations, Second Edition*, 2003.

We've assessed our programs for their contribution to our mission and our financial stability on a matrix to determine which fall in the various quadrants of low mission/high cost, high mission/high cost, low mission/low cost, and high mission/low cost, with that last obviously being the ideal, and looking at all of that, we had to come up with our balance point [see chart above]. We don't want to be forced into a position of not being able to serve those most in need, so we have to look at which programs might be able to subsidize others. It's a balancing act.

Despite all the plans and agility, there is still a possibility of more losses. "If it's truly as bad next year, we would have to do layoffs and cut some services or cut services to some areas," Patrick speculates. But even here, CRHDC has considered scenarios. "We're looking at the loss of one urban area rather than immediately cutting rural. We've actually selected the urban target areas where we would have to scale back, and we have already had to identify staff that we'd have to lay off."

But for now, CRHDC is moving ahead, developing new migrant farm-worker housing programs, looking at fee-generating lending opportunities through CRHDC's Community Development Financial Institutions arm, applying for new Community Development Block Grant and other program resources, and eyeing possible resources from the federal economic stimulus.

When it comes to people, that's the toughest job for the associate director, and Patrick knows it.

We're very transparent with our employees. We have let them know. We have a meeting every Monday, and they know where the funding stands and what the challenges are. We have let them know that we are committed, as long as we can, to making sure that our employees are OK: that we're not, at this point, going to be reducing.

I'd have to say, yeah, we're fairly stressed, because we are monitoring those reserves, we're monitoring what's coming in, we're monitoring the new funding opportunities, and doing the forecasting, and sitting here saying, "OK, how do we continue with the mission?" And we've looked at, "OK, what is our fallback plan if we have to do any layoffs? How do we triage this so that the mission still remains first?"

We've had to come up with some plans that we don't necessarily like. For the employees that we have, though, we've made it even more of an emphasis to let them know how much we appreciate what they do, how valuable what they do is. We're trying to let them know, "We think that what you do is hugely important to the communities that we're in, and we are doing everything we can to make sure that you can continue to do that."

"This year is giving me an ulcer," Patrick says. Channeling Mel Brooks, she concludes, "It's not true that 'it's good to be king.'"

To comment on this article, write to us at feedback@npqmag.org. Order reprints from <http://store.nonprofitquarterly.org> using code 160104.