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Neighborhood Reinvestment

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Neighborhood Reinvestment
Corporation

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Federal Deposit Insurance Corporation

Edgar F. Callahan
Chairman
National Credit Union Administration

February 10, 1983

Mr. Michael Castine
Deputy Director
Office of Private Sector
Initiatives
The White House
Washington, D.C. 20500

Dear Mike:

This is the background material I promised you on the proposed visit during the first week of March by the President to the La Habra NHS program. The President's visit would project the following messages to the public:

- The importance and effectiveness of a private sector supported, self-reliant, local responsibility approach to solving a significant community problem.
- The President's recognition and support of efforts by minority groups to cooperate with business leaders and local government to solve problems faced by their communities.
- The importance of housing conservation as a part of national housing policy -- the need to reverse the decline trend of older urban neighborhoods and stop the creeping deterioration of housing units and whole neighborhoods as viable places to live that would require billions of dollars to replace.
- The importance of the network of Neighborhood Housing Services programs as a vehicle for action to carry out the above concepts, as was recognized by the President's Commission on Housing and the President's Task Force on Private Sector Initiatives in their Reports (excerpts enclosed).

The message to the public would be communicated through media coverage of the visit. The proposed schedule would offer two kinds of media coverage:

- A visit by the President to the home of an enthusiastic, appreciative Hispanic lady who will proudly show her home, which was improved through the NHS program.

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-- An exchange between the President and NHS program leaders -- business leaders, local government officials and Hispanic residents -- in front of the Guadalupe Hall at the NHS office. The exchange could be culminated by the President's announcement of his intention to proclaim the First National NHS week to encourage the work of NHS programs in the more than 182 neighborhoods in more than 132 cities nationally.

Guadalupe Hall's exterior, which is an Hispanic mural, would be the background for video and photographic coverage to further emphasize the visit's Hispanic emphasis.

A proposed schedule is enclosed.

Sincerely,



Wm. A. Whiteside
Executive Director

Enclosures

WAW/cws

bcc: Jennifer Taub

LA HABRA

Boundaries: Whittier, Harbor, Southern Pacific Railroad Tracks

Composition: 44% Hispanic, 54% Anglo, 2% Other

Percent of City Median Income: 69%

Government Representatives: Congressman William E. Dannemeyer (R)
Mayor Earl Roget (R)
State Senator John Seymour (R)
State Assemblyman Ross Johnson (R)

La Habra is a small, suburban community with a high percentage of Hispanic residents in the older section of the city. The NHS program represents the central focus of community development activity in the city and has strong backing of Orange County businesses.

On a walking tour, the Vice President would have the opportunity to visit with a family reoccupying a home which the NHS relocated from the site of freeway construction to replace their earlier home which was beyond saving. In another nearby home, the Vice President would meet with a family occupying a structure which had been so severely deteriorated it had to be stripped to the bare studs and completely rebuilt.

PROPOSED SCHEDULE

Minutes Into Visit	Activity
0	Land at Washington School on a large grassy area in front of the School. Enter the Presidential limousine to drive to the home of an NHS resident. Accompanying the President would be three representatives of the NHS partnership -- an Hispanic resident who is the NHS president, a business leader member of the NHS Board, and a local government representative. The NHS president would provide a one-minute briefing en route to the first photo session.
3	Arrive at the home of an Hispanic NHS resident, a 27-year resident of the NHS neighborhood who lives on a social security pension and whose home was rehabilitated through the NHS program. Pictures would be taken with her and her grandchildren as she proudly shows off her home.
8	Re-enter the limousine and drive to Guadalupe Hall in front of the NHS office. Enroute, receive a briefing from the NHS president in preparation for the upcoming exchange between the President and NHS leaders at Guadalupe Hall. The route recommended will enable the press corps to see NHS target blocks and neighborhood impact - enabling them to understand and portray a positive image of the program.
15	Arrive at Guadalupe Hall and walk from the parking lot to a podium in front of the Hall -- a distance of about 100 feet.
16	Greet podium guests, many of whom will be Hispanic residents who have been honored by the NHS program, top business leaders whose support of the La Habra NHS was essential to the program's success, and local government representatives.
17	Make prepared remarks to relate the messages which are the goals of the visit. Announce plans for NHS Week Proclamation.
20	Allow a young Hispanic girl to show off her family's NHS Good Neighbor Award -- take pictures with her as he looks at and admires the award.
21	Ask questions and take questions.*
30	Depart by helicopter from the side yard of Guadalupe Hall.

* Question period may be extended as desired.

NEIGHBORHOOD HOUSING SERVICES OF LA HABRA

FACT SHEET

March 1, 1983

- o Neighborhood Housing Services (NHS) is a national network of locally-funded and operated, autonomous, self-help programs which are successfully revitalizing declining neighborhoods.
- o At the heart of each program is a partnership of residents, business leaders, and local government officials who make a commitment to each other to provide the resources each has at its disposal: time and hard work, credibility with neighbors, loans and other business services, city services and the capital improvements necessary to implement their neighborhood revitalization strategies.
- o Experience in the earliest NHS programs shows that \$12,000,000 of reinvestment occurs in the 5-1/2 years it takes to "turn around" an average NHS neighborhood of 2,500 dwelling units. This reinvestment is produced by private lenders; local and state governments, and the homeowners themselves.
- o LA HABRA NHS HAS STIMULATED ALMOST \$19 MILLION IN REINVESTMENT IN ITS NHS NEIGHBORHOOD. THIS REPRESENTS OVER \$76 IN REINVESTMENT STIMULATED FOR EACH \$1 PRIVATELY CONTRIBUTED TO LA HABRA NHS FOR OPERATING SUPPORT.
- o Nationwide, the NHS programs have generated one and a quarter billion dollars of reinvestment in neighborhoods, with funds provided primarily by private lenders, residents, and local government.
- o 5,183 PEOPLE LIVE IN LA HABRA'S NHS NEIGHBORHOOD; nationwide, 1,500,000 people live in NHS neighborhoods, ranging in size from 1,500 to 27,000 population.
- o THE INCOME LEVEL IN LA HABRA'S NHS NEIGHBORHOOD AVERAGES 69% OF THE CITY-WIDE MEDIAN.
- o 182 NHS neighborhood programs are now operating and 21 more are being developed across the country.
- o 132 cities in 42 states and the District of Columbia have NHS programs in operation.
- o NHS programs operate in large, medium and small cities. Of the 56 cities over 250,000 in population, 41 have NHS programs and one (Los Angeles) has a four-neighborhood program in development.

- o Nationwide, minority populations make up 85% or more of the total in one-fifth of the NHS neighborhoods, while three-fifths have a minority population of between 15% and 85%, and one-fifth have a minority population of 15% or less. LA HABRA NHS HAS A MINORITY POPULATION OF 44%.
- o NHS neighborhoods have from 600 to 10,000 dwelling units. The median neighborhood size is 2,500 units. LA HABRA NHS HAS 2,042 DWELLING UNITS.
- o The staff of the Neighborhood Reinvestment Corporation, a public corporation chartered by Congress, provides the development and technical support that enables the local NHS partners to organize themselves and continue on their own.
- o Working closely with Neighborhood Reinvestment is Neighborhood Housing Services of America, a private not-for-profit, tax-exempt corporation which provides local NHS programs throughout the country with:
 - (1) A national secondary market which purchases non-bankable loans from local NHS revolving loan funds.
 - (2) Technical assistance and other services.
- o By December, 1981, NHTSA replenished local revolving funds by purchasing loan packages totaling \$5 million from NHS programs.
- o In 1978, NHTSA established the capacity to replenish its own lending pool for local funds through the sale of secondary market notes to institutional investors:
 - The Equitable Life Assurance Society of the United States, starting in 1978, purchased NHTSA notes totaling \$5 million.
 - The Prudential Insurance Company of America committed to purchase \$5 million in NHTSA notes to create a First Mortgage Purchase Program for NHS loans starting in 1982.
 - The Aetna Life and Casualty Insurance Company has just entered into an agreement to purchase \$4 million in notes from NHTSA.
- o In 1982, approximately \$21,000,000 was contributed by local industry, foundations, and municipalities to local NHS budgets and revolving loan funds.
- o NHS programs are the result of cooperation between the public and private sectors at the local level. Several national corporations are also working with Neighborhood Housing Services of America to channel support to NHS programs into a number of communities.

NEIGHBORHOOD HOUSING SERVICES OF LA HABRA
CASE STUDIES

The NHS of La Habra is at work in a 1.9 square mile area consisting of housing units and 5,400 people. The housing stock is inconsistent in its quality, with portions of the neighborhood in excellent condition, predominantly occupied by a white, blue collar population. The remaining portion of the neighborhood, scattered throughout the area, consists of small, wood frame houses in very poor repair, predominantly occupied by a blue collar Hispanic population.

The NHS program is serving the entire neighborhood by working to improve the deteriorated structures and stop the decline trend which would otherwise destroy the whole neighborhood including now strong, healthy sections. The NHS work organizes improvement activities throughout the area, offering direct assistance to residents where needed. This includes loan referrals, financial counseling, construction counseling and loans to NHS clients who do not meet conventional credit standards and otherwise could not repair their homes.

In addition to facilitating repairs of existing structures, the NHS seeks to remove blighting influences in the neighborhood, such as vacant lots and under-maintained rentals. Occasionally, NHS loans are needed to facilitate new construction, move-on of surplus structures to vacant lots, conversion of undermaintained rentals to owner-occupancy and other strategies to bring about an upgrade of the neighborhood which will reverse its decline trend and restore community confidence in its future.

Examples of La Habra NHS loans are as follows:

- I. A 27-year resident of the neighborhood, one elderly woman living on a social security pension, obtained an NHS loan for \$7,264.00 at one percent interest, to be repaid in monthly installments of \$33.41 over a twenty-year period. This loan enabled the homeowner to completely rehabilitate her property. The electrical wiring system was updated, the windows and doors repaired and replaced where necessary, and the front porch was rehabilitated so that it meets health and safety standards. New floors were installed in the kitchen and bathroom, and new kitchen counters were provided to replace the old cracked and buckling counter tops. The entire home was treated against termites, and the facade was re-stuccoed. As the finishing touch, the entire home received a fresh coat of paint. Since the time this property was revitalized, three other homeowners on the same block have obtained home improvement loans through NHS. A number of other residents have also made improvements to their properties, feeling a renewed sense of pride and confidence in the vitality of their block.

- VI. Earning an annual income of \$5,400, a family of five secured an NHS home improvement loan for \$10,000 at zero percent interest, to be repaid in thirty dollar monthly installments. This loan enabled the family to make a number of structural improvements including updating the electrical wiring system to provide for 100-amp service and adding electrical outlets and switches throughout the house. The sewer and waste system were cleaned out and repaired as well as the water service lines. A dual wall heater was installed and the plumbing in the kitchen and bathroom was totally revamped and insulated. A smoke detector was installed and all exposed wiring was covered. The contractors also sealed and repaired the exterior siding of the home, replaced the window and door screens, and repaired an unsafe and sagging front porch. All debris and inoperative vehicles were removed from the front lawn and the exterior of the home was given a new coat of paint. This home is now a source of pride and comfort to the family living there.
- VII. A 55 year old, disabled woman living on a yearly income of \$7,500 received a loan from the NHS Revolving Loan Fund for \$25,000 at three percent interest to be repaid in \$138.95 monthly installments over a twenty year period. With this loan the homeowner was able to have the plumbing and electrical systems brought up to health and safety standards. New kitchen cabinets and a new heating system were also installed. The foundation of the home was repaired, and the interior and exterior of the house received a fresh coat of paint. The resident's home is now a safe and comfortable place in which to live.
- VIII. The single mother of 3 teenagers received an NHS loan for \$3,000 at 8½ percent interest to be repaid in \$61 monthly installments over 5 years. This loan enabled the homeowner to repair a faulty roof, update the home's plumbing system, and bring the back porch up to safety standards. The family also received a \$1,000 grant from the NHS to paint the exterior of their home.
- IX. A family of four approached the NHS for a home improvement loan to rehabilitate their severely deteriorated home. The NHS staff determined that it would be less costly for the family to build a new house, than rehabilitate the existing structure. After researching the cost of purchasing a manufactured home, one of the contractors who has worked with the La Habra NHS over the past 5 years, offered to build the family a new customized home at the same price as purchasing a manufactured home. The NHS assisted the family in obtaining a conventional loan of \$41,000 at 14.25 percent interest and an NHS loan for \$5,000 at 8.5 percent interest. With these loans, a 3-bedroom, 1300 square-foot home has been built. Since construction of the new house began, the owner of the structure next door has asked the NHS for help in improving his home.

- II. A single parent earning \$186.00 a week obtained an NHS loan for \$7,500 at three percent interest, to be repaid over twenty years. With this \$7,500 loan the resident was able to have the kitchen and bathroom repaired, to repipe the home's water system with updated materials, and to patch the cracked walls and ceiling throughout the house. The front door and three interior doors were replaced, and the roof was removed so that the sheathing could be checked and renailed where necessary. Before completing the job, the interior and exterior of the home were painted, transforming a once blighted property into a source of pride for the entire block.
- III. A family of six earning an annual income of \$12,000 received a \$7,000 loan at six percent interest, to be repaid in forty dollar monthly installments over 35 years. With this loan, they were able to build a much needed third bedroom and remodel the bathroom and kitchen. A new roof was provided, the foundation reinforced, and the electrical system was brought into compliance with local safety standards. A fresh coat of paint revitalized the exterior of the home.
- IV. A resident earning \$13,000 a year obtained financing through Neighborhood Housing Services to move a manufactured home onto the site of a deteriorated, vacant property. The NHS loan enabled the new homeowner to raze the existing, uninhabited structure and lay a foundation for the new house. The homeowner participated in the entire rehabilitation process, installing the utility services and connecting all the crossovers to his new home. He installed the electrical service, built a new garage, and provided carpeting and linoleum for the interior of the modular home. The homeowner also stuccoed and painted the exterior and paved the driveway. Since removing a serious problem property from this block, several other residents on the same street have made improvements to their homes, and at least five other homes have participated in the Neighborhood Housing Services program.
- V. NHS of La Habra granted a \$1,750.00 loan to a family of four earning \$6,570.00 a year. With this loan the family updated their electrical wiring system, patched their leaking roof, obtained new door screens and repiped their outdated plumbing system.

Neighborhood Preservation

Private foundations, religious groups, and other private institutions are encouraged to continue their sponsorship and financing of innovative programs in housing construction and rehabilitation and access to homeownership. Neighborhood preservation activities should continue to be used to preserve and upgrade housing in older areas with every effort made to benefit low-income people and to avoid displacing them.

Consistent with the President's support of voluntary efforts to deal with major human needs, the Commission wishes to encourage continued involvement of churches, foundations, neighborhood development organizations, and others in efforts to meet housing and community development needs. Although such groups had mixed success in the subsidized housing programs of the late 1960s and early 1970s, their contributions to low-income housing in recent years have been substantial. They have been particularly successful when they have worked with private entrepreneurs by forming joint ventures to capture a portion of the money which high tax bracket investors are willing to contribute in exchange for the project's tax shelter benefits (because of the depreciation tax losses available on the buildings). These funds, called syndication proceeds, are then used for the benefit of the residents of the facility.

Because of their commitment to the quality of life of low-income households in rural and urban areas, nonprofit groups are often particularly suited to play an important role in housing and neighborhood improvement efforts. The Commission recognizes that its proposals would curtail some direct development activity that these groups have sponsored under Federal programs such as deep-subsidy new construction programs. However, limited Federal resources now make voluntary efforts increasingly important. There are a number of roles that private institutions can continue to play in concert with Federal, State, and local housing programs. In particular, the availability of a Housing Component within the Community Development Block Grant program will broaden the range of activities in which local groups and local governments can work together on neighborhood improvements and housing efforts. Many groups will want to continue their joint developments with for-profit sponsors of both rental housing and cooperatives and utilize subsidies available through the CDBG program to do so. Local revolving loan programs and other supportive service programs may continue to be available because they have alternative sources of funds. Other groups that have successfully managed to rehabilitate properties will find that they can continue to do so and also obtain housing payments to assist the low-income tenants in the buildings.

One example of successful public/private/neighborhood partnership is the Neighborhood Housing Service (NHS) program. The partners—private lenders, residents, and local businesses—work with NHS offices to revitalize neighborhoods. NHS makes below-market interest rate loans to neighborhood residents who cannot afford or obtain private financing, and also provides supportive services such as financial counseling, property inspections, and construction monitoring. Where NHS programs have operated in neighborhoods, they have been a stabilizing factor, stimulating rehabilitation and preventing displacement of lower-income homeowners in the neighborhood.

In over 120 cities, the Neighborhood Reinvestment Corporation, a Congressionally chartered public corporation, has brought together the NHS partnerships, provided assistance to the local volunteers in marshaling private and public resources, and continued to offer training and technical assistance so that NHSs remain effective local revitalization mechanisms. One of the newer strategies developed by Neighborhood Reinvestment is the NHS/Apartment Improvement Program, which has utilized over \$27 million in conventional financing to rehabilitate rental properties without displacing low- and moderate-income families. Neighborhood Reinvestment has also been instrumental in establishing a secondary market to purchase local NHS loans, which includes participation by private insurance companies.

The Commission encourages States and localities to develop financing programs, public/private partnerships, and other mechanisms to help preserve older neighborhoods, but every effort should be made to avoid displacement of low-income people in this process. Many older residential structures have not been kept in good condition, although these buildings could provide a source of standard housing for lower-income households if appropriate resources were available for their renovation.

Excerpt from Report of President's Commission on Housing.

of the hundreds of FFC applications received, the SCDF selected 80 participants. No previous farming experience was required. The Department of Labor, along with Israeli government personnel experienced in establishing cooperative settlements, trained farmers in the agricultural and social aspects of a cooperative farming lifestyle. Following a two-year training period, FHA will make 40-year, low-interest loans to those participants who have proven their capacity to succeed as members of the cooperative settlement. The farmers will receive the deeds of the 5 to 20 acre tracts.

The Prudential Insurance Company has loaned \$1.5 million to another cooperative farm program for minorities. The loan was used to buy a 3,200 acre farm that will serve as the training site for a federally supported agricultural program. Additional funding came from the Economic Development Administration, the Department of Labor, the Community Services Administration, the Ford Foundation and several other private investors.

The land will be subdivided into 30 acre parcels and transferred to families which will grow, on a year-round basis, soybeans, cotton and winter wheat, while receiving intensive training in agricultural production and farm management. Farmers who successfully complete a two-year training program will then be permitted to purchase their land, with possible financing assistance from the federal Farmers Home Administration.

Future Directions

More and more, insurance firms are finding that company partnerships—similar to the original Urban Investment Program—are an effective means of supplying investment dollars for projects of high social impact.

Forty-five life and health insurance companies across the nation have joined with the nonprofit Neighborhood Housing Services (NHS) to form the NHS-Insurance Industry Full Partnership Program. NHS programs, now in 127 cities, operate with partnerships of neighborhood residents, business leaders and local government officials to revitalize declining neighborhoods. NHS programs have generated over \$1 billion in reinvestment since the first was established in Pittsburgh in 1968.

By late 1982, NHS-Insurance Industry Full Partnership Programs were operating in eight cities, serving 26 neighborhoods. The insurance companies had contributed over \$1.1 million, and thousands of volunteer hours of managerial expertise.

NHS loans are, by definition, "unbankable" and require more liberal terms than the private market accepts. Neighborhood Housing Services

of America (NHTSA) met the liquidity needs of the NHS programs by purchasing NHS loans through a loan purchase pool funded by Neighborhood Reinvestment Corporation grants until 1978.

That year, The Equitable Life Assurance Society purchased \$1 million in NHTSA notes backed by NHS loans. This was the first significant step in the creation of a secondary market for NHS revolving loan funds. Based upon their successful experience, in 1980 the Equitable agreed to expand this commitment by purchasing an additional \$2 million in notes.

Equitable's purchases have enabled NHTSA to replenish the loan funds of NHS programs across the country. By late 1982, NHTSA had purchased loan packages totaling \$2.8 million. The strength of this new secondary market has added momentum to local NHS programs by boosting both homeowner and lender confidence.

Recently, Prudential committed \$5 million in low-interest loans to help create a new secondary market for first mortgages administered by NHS programs to provide below-market loans to buyers of properties which have been "sticking points" in their neighborhoods, such as vacant lots, vacant and abandoned houses, and under-maintained rental units. This new secondary market was one component of a four-part program involving Prudential, Prudential Property and Casualty (PRUPAC) and the NHS movement. The other components are a contributions fund for Insurance Industry Full Partnerships, an experimental homeowners policy for properties undergoing rehabilitation, and the involvement of PRUPAC personnel as volunteers in NHS programs.

The Allstate Insurance Company has invested \$500,000 in a for-profit subsidiary of the Chicago Neighborhood Housing Services. This corporation--New Partnerships, Inc.--is purchasing, rehabilitating and operating apartment buildings in five NHS neighborhoods utilizing the seed capital provided by Allstate. (For more information on NHS and NHS programs see Chapters 4 and 13).

The College Endowment Funding Plan

A growing number of insurance companies are pooling investment funds to finance the College Endowment Funding Plan (CEFP), an innovative method of building endowment for small, under-financed, minority colleges. It combines gifts secured by colleges with borrowed funds to form a 25-year investment package. During the life of the investment, earned income provides funds for current expenditures of the colleges, while accruing endowment. An important feature of CEFP is that only interest on the loan is paid for the first 15 years. Ten percent of the principal is retired yearly during the last ten years. Participating insurance companies lend funds at a discount from the rate

spaces, offices and housing. All permanent financing and 25 percent of the construction financing is being provided by a local lender using CIF.

+ A Portland, Oregon, lender used CIF to finance the construction of a solar home designed for inner-city use. If the model is successful it will be replicated in other parts of the country.

Neighborhood Housing Services and the Neighborhood Reinvestment Corp.

The Neighborhood Housing Services (NHS) program is a unique partnership of public, private and community interests working together at the neighborhood level. Each NHS is funded primarily by local private businesses: savings institutions are the largest contributors.

In mid-1982 these programs were serving about 176 neighborhoods in 127 cities, operating in 43 states and the District of Columbia.

Programs are in most large cities, but are also being organized in a growing number of smaller cities and towns. One-fifth of the neighborhoods have 85 percent or more minority occupants, one-fifth have populations 15 percent or less minority, and the remainder have populations between 15 and 85 percent minority. The neighborhoods served range in size from as few as 600 dwelling units to as many as 10,000.

The programs are coordinated by the Neighborhood Reinvestment Corporation (NRC), created by Congress in 1978.

The NHS program began in Pittsburgh in the late 1960s. Seeking to improve the quality of housing in their community, residents of the city's Central Northside neighborhood initiated a series of discussions with financial leaders and city officials. Ultimately those discussions resulted in a working partnership through a local, nonprofit corporation called Neighborhood Housing Services, Inc. of Pittsburgh, which provided housing rehabilitation services including a revolving loan fund.

NHS programs are administered by NHS staff members from offices in the neighborhoods. They are governed by a local board of directors made up of neighborhood residents, at-large community members, private sector representatives and city government representation or liaison.

Funds for operating budgets are provided by participating financial and business organizations. Government funds are contributed to the revolving loan fund and in some cases to a portion of the operating funds, but efforts are made to ensure that government funding does not

damage the program's private character.

The goal of all of these programs is to revitalize neighborhoods. They include Neighborhood Preservation Projects, aimed at finding new revitalization strategies; the Apartment Improvement Program, which concentrates on large, deteriorating apartment buildings; Problem Properties Strategies, aimed at encouraging tenant purchases and vacant property sales; the Urban Lender Program, providing training for lenders and underwriters; Owner-Built Homes programs, which help moderate-income homeowners collectively build their own homes with private financing; Energy Conservation, including counseling, energy audits and helping residents make cost-effective investments; and Neighborhood Business Centers, aimed at strengthening small businesses, improving the area's physical environment and providing additional goods, services and employment for the community.

Here are two examples of NHS programs:

The NHS Apartment Improvement Program (AIP)

Now operating or being developed in 16 communities, the AIP program brings together the city, financial institutions, property owners, tenants and neighborhood organizations to upgrade large apartment buildings that have become a blight in their neighborhoods.

The program began in Yonkers, N.Y., a suburban community of New York City. In 1976, the Urban Reinvestment Task Force, the predecessor to NRC, began trial replications of it in Hartford, Conn., and Mount Vernon, N.Y.

The catalyst for the Mount Vernon AIP was the Eastchester Savings Bank, which had been active in the Yonkers AIP partnership. Working with city leaders, a target area of 19 apartment buildings was defined.

Neighborhood meetings were held to involve tenant and community organizations, and a lenders' luncheon was co-sponsored by the federal financial regulatory agencies and the New York State Banking Department. A special workshop brought property owners, tenants, community organizations and representatives of the city and financial institutions together. Partnership and building evaluation committees were formed, each with representatives from the four sectors of the partnership.

Over the next six months, the partnership committee worked with the city staff to create the program's structure and the building evaluation committee developed criteria for building selection. The city underwrote the costs of AIP, and supplied its staff with assistance from other city agencies. It also made a commitment to reduce taxes to

reflect current income.

Although AIP is city-administered and funded, lending institutions are directly involved as mortgage holders and committee members. A complex of four apartment buildings was chosen as the initial effort. A balloon mortgage of \$1.1 million was coming due. But the two lending institutions involved—New York Bank for Savings and Eastchester Savings bank—agreed to restructure the mortgage to provide funds to rehabilitate the building. The building owner and city code inspectors worked with the tenants to develop the final work plan. Since then 676 units have been rehabilitated in Mount Vernon through AIP.

The NHS Urban Lending Program

Because suburban areas have been the focus of most housing development since World War II, appraisers and loan underwriters often know more about suburban tract housing than about city neighborhoods.

At the request of the FHLBB, the Neighborhood Reinvestment Corp. was asked to develop a program to make appraisers and underwriters more knowledgeable about urban areas. The result was the Urban Lender Program, first used in Baltimore. Working with the Baltimore NHS partnership, NRC designed a program combining formal course work with field experience. The Baltimore program is now self-sufficient, and a second program has been established in Chicago. (For a further discussion of NHS see the Partnership Innovations chapter).

Neighborhood Economic Development

The Greater Southwest Development Corporation, a community development group originally financed by local business on Chicago's Southwest side, has been acclaimed as a "national model program" by the NRC. Programs based on the model will be established in several other cities.

Six savings and loan associations formed the Greater Southwest Community Service Corporation in 1974 to serve as the Development Corporation's financial arm for commercial revitalization projects. The continued commitment of savings institutions and banks to the area is one of the factors which led to the selection as a model program.

Through DevCorp, local financial institutions can provide financing for commercial revitalization projects essential for neighborhood strength and stability. Its first project was the purchase of a 50-year-old, nearly-vacant building at a key commercial intersection in the neighborhood. The building was restored to a modern structure, fully occupied and income-producing. The second project involved the

purchase of a burned-out food market which had been vacant for several years, remodeling the building, and selling it to a private owner.

When many commercial developments were stopped by high interest rates, DevCorp created the Greater Southwest Local Development Co. to obtain lower cost loans through the Small Business Administration. This has resulted in an investment of more than \$1.5 million in new businesses or improvements.

In 1980 DevCorp also began serving as the Southwest Side agency for a new repair program developed by the city of Chicago for senior citizens and handicapped persons. Individual projects are limited to \$5,000 in materials and labor and include preventive maintenance such as caulking, replacing windows and cleaning gutters.

DevCorp was created in the beginning as a totally local development group, financed by local business and industrial firms. Over the years it has received a number of grants for special projects and was sometimes the leader in private projects. But most of the money still comes from local financial institutions and business firms.

Corporate Investment Opportunities

Today, a number of major corporations are investing a portion of their liquid assets in certificates of deposit and other investment vehicles of minority owned and operated savings institutions.

For example:

+ Arco Corporation, Los Angeles, California, has earmarked an annual budget of \$2.6 million for deposit in minority owned and controlled savings and loan associations and banks. The company is providing investment capital to about 60 institutions through this program.

+ Prudential Insurance Company of America in 1981 had deposits of \$5.6 million in minority thrift institutions, including both non-interest and interest-bearing deposits. Through this program, funds were deposited in 93 banks and 73 savings and loan associations with minority management or ownership.

Energy Lending Initiatives

Savings institutions have responded to the problem of escalating energy costs in three ways: by marketing loans to improve energy-efficiency, offering builders and buyers of new homes special

Another excellent example of a national investment partnership is the **National Reinvestment Corporation (NRC)**. (See box). This partnership specializes in rehabilitating housing in neighborhoods in incipient decline. Differing from the preceding examples, however, NRC does not generally use an existing community organization to achieve its objectives. Instead, it builds a coalition among residents, business leaders, and local officials. This coalition then creates a nonprofit entity known as a **Neighborhood Housing Service**. (See Chapters 3 and 4).

The NHS is an independent entity, and relates directly to NRC—the administrative arm—for needs such as training and information dissemination. Today, the Neighborhood Reinvestment Corporation (NRC) comprises the largest network of partnerships ever stimulated by a federal initiative. Over the past 12 years, a unique combination of over a million volunteer hours, more than \$100 million in contributed local support and \$62 million in federal funds has generated over \$1 billion in reinvestment in neighborhoods in 43 states and the District of Columbia. Over the years NRC has benefited from substantial capitalization by the federal government, from a secondary market vehicle—Neighborhood Housing Services of America—initially capitalized with a grant from the Ford Foundation and subsequently financed by several insurance companies, and significant involvement at the local level by government, commercial banks, saving and loan associations, credit unions and increasingly non-financial corporations.

NRC begins its involvement in a community by sending personnel whose task is to identify the resident, business, and government leaders with an interest in developing an NHS. Then NRC specialists steer each community through a developmental process designed to allow the residents to discover for themselves what their needs are. This is usually accomplished through tours and meetings, culminating with a two-and-a-half-day retreat where participants air complaints and hash out community problems. Each of the three groups—lenders, residents and officials—caucuses separately to decide what it will offer and what it expects in return. Finally, three groups reconvene to reach a compromise that is acceptable to everyone. Once the partnership has been launched, NRC staff fade into the background and let local lenders, through the NHS, take the initiative.

There is no prototypical NHS program or neighborhood. The process is flexible and designed to adapt to the needs of the particular target community. For example, Albuquerque, New Mexico, has an NHS in a downtown neighborhood, which developed in the early 1900s as a melange of Victorian mansions, bungalows, owner-built adobes, Prairie School houses and local vernacular styles. By the early 1970s, it had become dilapidated and plagued by absentee ownership. The residents who remained feared they would be displaced because most of the area

**Neighborhood Reinvestment Corporation
Neighborhood Housing Services
Neighborhood Housing Services of America**

Objective:

+ To promote, through the use of partnerships revitalized neighborhoods for the benefit of current residents.

Organization:

+ NRC is public corporation, receiving federal funds and governed by a board comprised of the head of the federal financial regulatory agencies. NHS programs are locally controlled nonprofit corporations that join residents, business leaders, and officials of local government in a partnership board. NHSA is a nonprofit that serves as a secondary market resource.

Financing Operation:

+ Key to the operation of NHS is a revolving loan fund that is capitalized by grants made by the NRC, local governments, foundations and industry. The fund provides loans at flexible rates and terms designed to meet the ability of the borrower to pay. These resources are for people who do not qualify for conventional loans.

+ NHSA was created to serve as a "bank" for NHS programs. It provides a secondary market resource so that the revolving loan funds can be replenished. The Equitable Life Assurance Society pioneered the purchase of \$3 million in NHSA notes. Loans from local NHS programs were used as collateral. Prudential Insurance Company has a \$5 million commitment for a secondary market first-mortgage fund designed to provide below-market financing.



Neighborhood Reinvestment

1700 G Street NW Washington DC 20552 202 377-6360

July 8, 1982

Mr. Michael Castine
Deputy Director
Office of Private Sector
Initiatives
The White House
Washington, D.C. 20500

Dear Mike:

As promised, I've enclosed information on the Southern California Neighborhood Housing Services programs. Also enclosed are possible public appearance opportunities in each neighborhood, as well as key points which could be addressed in remarks.

Understanding the pressures on your time, we have kept the enclosed brief and would be happy to provide you with further information and details.

If I may be of further assistance, please feel free to call me. I may be reached at 377-6646.

Sincerely,

George Knight
Deputy Executive Director
Field Operations

Enclosure

Board of Directors

Richard T. Pratt, *Chairman*
Chairman
Federal Home Loan Bank Board
J. Charles Partee, *Vice Chairman*
Member, Board of Governors
Federal Reserve System

C. T. Conover
Comptroller of the Currency
Samuel Pierce
Secretary
US Department of Housing

Edgar F. Callahan
Chairman
National Credit Union Administration
William M. Isaac
Chairman

POINTS WHICH COULD BE INCLUDED IN PRESIDENT'S REMARKS

- o During my campaign for the Presidency, I expressed my enthusiams for neighborhood self-help efforts as being in the best American tradition. I promised to act aggressively to strengthen neighborhood revitalization efforts such as the highly successful Neighborhood Housing Services programs.
- o Since I took office, Neighborhood Housing Services programs have become operational in 42 cities serving 49 neighborhoods bringing the total of Neighborhood Housing Services programs across America to 171 neighborhoods served in 126 cities.
- o In Fiscal Year 1982, we permitted the Federal support for Neighborhood Housing Services programs to increase by 11.3% during a time of extreme budget austerity and in Fiscal Year 1983 we have recommended to Congress a further 11.8% increase in Federal seed money for this basically local self-help effort.
- o Neighborhood Housing Services in an outstanding example of a working partnership between neighborhood residents, local business people and local government. Individuals from these three sectors roll up their sleeves and put in thousands of volunteer hours to revitalize the NHS neighborhood.
- o Neighborhood Housing Services is the outstanding example of neighborhood self-help efforts in America today. Over one and one-half million people live in NHS neighborhoods like this one and the revitalization taking place is a tribute mainly to neighborhood residents' self-help efforts.
- o The secret of Neighborhood Housing Services success is the impact of this voluntary self-help effort on confidence in the neighborhood and its contribution to the pride and spirit of the community.

LA HABRA

Boundaries: Pinehurst, Greenwood, Harbor, Third, Cypress, La Habra Blvd., Idaho

Composition: 44% hispanic, 54% anglo, 2% other

Percent of City Median Income: 69%

Government Representatives: Congressman William E. Dannemeyer (R)
 Mayor Earl Roget (R)
 State Senator John Seymour (R)
 State Assemblyman Ross Johnson (R)

La Habra is a small, suburban community with a high percentage of Hispanic residents in the older section of the city. The NHS program represents the central focus of community development activity in the city and has strong backing of Orange County businesses.

The President would have the opportunity to cut the ribbon signifying start up of rehabilitation on the final problem property on an NHS model block. On a walking tour, the President could have an opportunity to visit with a family occupying a home which the NHS relocated from the site of freeway construction to replace their earlier home which was beyond saving. In another nearby home, the President could meet with a family occupying a structure which had been so severely deteriorated it had to be stripped to the bare studs and completely rebuilt.

INGLEWOOD

Neighborhood Name: Lockhaven

Boundaries: (N) 108th St. (S) Imperial (E) Crenshaw Blvd. (W) Prairie View

Composition: 56% black, 24% hispanic, 20% anglo

Percent of City Median Income: 93%

Government Representatives: Congressman Julian Dixon (D)
 Mayor Lee Weinstein
 State Senator Diane Watson (D)
 State Assemblyman Curtis Tucker (D)

The President would have the opportunity to attend a neighborhood block party to present an award to the residents of the most improved block. This celebration is the culmination of months of work by residents throughout the neighborhood improving each of their properties and their blocks. The most improved block will be the host of the party to be attended by residents from all of the block clubs throughout the Inglewood NHS neighborhood.

PASADENA

Neighborhood Name: NW Pasadena

Boundaries: (N) Pasadena City Limits (E) Los Robles Ave. (S) Washington Ave.
(W) Arroyo Blvd.

Composition: 85% black, 6% hispanic, 5% anglo, 4% asian

Percent of City Median Income: 73%

Government Representatives: Congressman Carlos Moorhead (R)
 Mayor Loretta Glickman (D)
 State Senator Newton Russell (R)
 State Assemblyman William Ivers (R)

The President would have the opportunity to visit with the homeowners of two properties undergoing rehabilitation with the assistance of the NHS. These homeowners are benefiting from the presence of NHS in two ways: the owners are unbankable according to normal credit criteria, but through a loan from NHS at terms they could afford are able to make critically needed repairs. Also the NHS is assisting the homeowners in selecting reliable contractors and will be overseeing the repairs.



Neighborhood Reinvestment

1700 G Street NW Washington DC 20552 202 377-6360

April 21, 1982

Mr. Jay Moorhead
Special Assistant to the President
Private Sector Initiative
The White House
Washington, D. C. 20500

Dear Jay:

I am pleased to forward the scenario for the proposed Presidential visit to the Peoria NHS.

As you will note, we were fortunate enough to coincide with the opening of the new NHS office in a restored, historic carriage house.

I know time is short, but if we get a green light, you can count on us to make it a successful event.

I look forward to hearing from you.

Sincerely,

Wm. A. Whiteside
Executive Director

Enclosure

Board of Directors

Richard T. Pratt, *Chairman*
Chairman
Federal Home Loan Bank Board
J. Charles Partee, *Vice Chairman*
Member, Board of Governors

C. T. Conover
Comptroller of the Currency
Samuel Pierce
Secretary
US Department of Housing

Edgar F. Callahan
Chairman
National Credit Union Administration
William M. Isaac

SCENARIO FOR PROPOSED PRESIDENTIAL VISIT TO NHS OF PEORIA

Date - Time

April 26

On-site review with NHS staff, board and Peoria city government of specific plans by Neighborhood Reinvestment staff.

Arrangements for coordinating with White House on all preliminaries with Neighborhood Reinvestment Washington staff.

May 4

Dry-run of all aspects of visit with Peoria participants.

May 8

Neighborhood Reinvestment staff begins on-site work with White House representatives and NHS and city representatives on coordinating all details of visit.

May 10

Tour Time minus 60 minutes

All Peoria participants including business leaders, neighborhood leaders, city government officials and press, at site in West Bluff neighborhood.

Tour Time minus 5 minutes

President's helicopter lands at site in or near West Bluff neighborhood. President greeted by Mayor Carver and president of the NHS.

Tour Time

President and party travel to within one block of NHS office (ideally within walking distance; helicopter landing site will determine whether automobile transportation is needed).

Tour Time plus 10 minutes

Walking one block, stops at rehabilitated houses on way to NHS office. President speaks with NHS client and homeowner who has independently improved home due to NHS having restored confidence in the neighborhood. Mayor points out public improvements in the neighborhood as City's part of the NHS partnership.

Date - Time

- Tour Time plus 20 minutes
- Arrival at NHS office. President cuts ribbon signifying opening of new NHS office in historic, restored carriage house which has been undergoing rehabilitation for this purpose. President greets business people who briefly describe their participation in the program, through providing loans and other normal business services to the neighborhood, through participating in the management of the affairs of the NHS as volunteers, through contributions to the operating budget of the NHS. President greets neighborhood resident volunteers and NHS staff.
- Tour Time plus 30 minutes
- President makes brief remarks to assembled NHS participants, neighborhood residents and press.
- Tour Time plus 35 minutes
- Press has opportunity for questions (local NHS staff as well as the executive director of the Neighborhood Reinvestment Corporation will be available to supply detailed information).
- Tour Time plus 50 minutes
- Pictures of various NHS participants with the President.
- Tour Time plus 60 minutes
- Return to helicopter by different route with NHS host pointing out physical evidence of NHS activities on the return walk.
- Tour Time plus 75 minutes
- Helicopter departs.

KEY POINTS FOR PRESIDENT'S REMARKS

- President's support for voluntary public/private partnership efforts to improve communities.
- President's commitment to strengthen NHS during campaign.
- Housing Commission's recognition of NHS as an important neighborhood revitalization effort supported by this Administration.
- President's positive impression of NHS's work in West Bluff neighborhood during walking tour.
- President's recognition of Mayor Carver and specific business leaders and neighborhood representatives for their leadership in NHS.

NATIONAL NEIGHBORHOOD HOUSING SERVICES WEEK APRIL , 1984

By the President of the United States of America

A PROCLAMATION

Neighborhoods are one of America's most vital resources. It is in neighborhoods that the American character is formed. Healthy neighborhoods of well-kept homes and businesses with strong networks of families, churches, schools, and civic, community and fraternal organizations help Americans form positive values and realize their full potential as members of our society.

Many neighborhoods, however, have suffered from physical deterioration and erosion of their social fabric, leaving their residents -- many of them elderly, poor and members of minority groups -- feeling outside the mainstream of American life. Reversing the decline of these neighborhoods is of the highest importance to our nation. The homes and businesses in these neighborhoods are a priceless resource which hundreds of billions of dollars could not replace. The family roots and neighborhood relationships are a similarly priceless base upon which to build a strengthened community.

Government cannot alone reverse neighborhood deterioration. Neighborhood residents themselves need help in bootstrap revitalization efforts they want to undertake, and businesses, churches, foundations and other private groups can help best in partnership with neighborhood residents and local government. No one sector can do the job alone. Partnerships of these groups are today reversing neighborhood deterioration in communities all over America, and recreating sound, vibrantly healthy neighborhoods.

Neighborhood Housing Services partnerships are working in over 134 cities, serving over one and a half million residents in over 185 neighborhoods.

Each Neighborhood Housing Services is an autonomous, state-chartered, private nonprofit corporation governed by a locally selected board of directors made up of neighborhood residents, local business leaders and local governmental officials.

Each Neighborhood Housing Services board of directors oversees a small staff operating out of a neighborhood office in carrying out a carefully planned revitalization strategy. Through addressing particular problem properties and assisting residents who could not otherwise afford to rehabilitate their homes, this strategy is designed to stimulate a renewed confidence in the neighborhood. Neighborhood Housing Services have stimulated, both directly and indirectly, about one and three-quarter billion dollars of reinvestment. Homes have been repaired, modernized and painted, business districts have been revitalized; vacant lots have sprouted the first new construction in more than a generation; and vacant, blighting properties have been converted to comfortable homes. Neighborhood residents are walking with new spring in their strides.

NOW, THEREFORE, I, RONALD REAGAN, President of the United States of America, do hereby proclaim the week of April , 1984 as National Neighborhood Housing Services Week. I invite the governors of the states, the officials of other areas subject to the jurisdiction of the United States and the American people to join me in recognizing and encouraging the efforts of Neighborhood Housing Services, and to observe such week with the appropriate ceremonies and activities.

IN WITNESS WHEREOF, I have hereunto set my hand this th day of , in the year of our Lord nineteen hundred and eighty-three, and of the Independence of the United States of America the two hundred and seventh.

RONALD REAGAN

Reagan & Bush

Reagan Bush Committee

901 South Highland Street, Arlington, Virginia 22204 (703) 685-3400

URBAN POLICY

America's cities are in deepening trouble after four years of the Carter administration's mismanagement of the economy. Their economic base has diminished as traditional industries have relocated elsewhere. Many of their middle class working families have followed their jobs, to be replaced by those earning less or depending on public support. The federal government has given increasing aid to city budgets, but at the same time it has imposed burdensome restrictions on how cities can use the funds. In addition, the federal government has imposed numerous regulations mandating the expenditure of city funds. In a period of economic decline--high inflation, high unemployment, and high federal taxes--each of these urban problems is accentuated.

The first step in revitalizing the nation's cities is to revitalize the overall national economy. Without a strong economy, no urban policy can be anything more than a temporary life support system. Governor Reagan's economic policy will control the growth of federal spending, reduce tax rates, spur job-creating investment, stabilize prices, and put America back to work again. In such a climate of production, the cities, can once again compete for new investment and job-producing growth.

To do that effectively, the cities need access to adequate tax resources. Governor Reagan's program for cutting tax rates

at the federal level will not only spur new economic activity, but will also make a larger tax base available for local governments to finance much needed improvements. Ultimately, Governor Reagan favors a transfer of program responsibilities, along with the tax resources to finance them, back to the states and local governments where they can be handled more efficiently and more responsively.

In the meantime, federal aid programs for the cities should be redesigned to consolidate present categorical programs into block grants which cities can apply flexibly to meet local priorities, instead of complying with detailed federal requirements. Where the federal government imposes costs on the cities, Governor Reagan would re-examine those requirements with the goal of revising or eliminating them.

Governor Reagan would also move immediately as President to launch a full demonstration of the "enterprise zone" concept. Cities would designate depressed areas as "enterprise job zones." Within each zone, the cities would agree to reduce burdensome local regulations, and stabilize taxation at a lower level. In return, the federal government would reduce various tax rates within the zone to stimulate the creation of new job-producing businesses. People in these zones would have the chance to go to work in new industries close to their neighborhoods, instead of subsisting on welfare assistance.

A Reagan administration would act aggressively to strengthen neighborhood revitalization efforts, such as the highly successful

Neighborhood Housing Services and Urban Homesteading programs. The former creates locally-based partnerships of neighborhood residents, lending institutions, and city governments to stimulate housing improvement and reinvestment. The latter conveys abandoned government and reinvestment. The latter conveys abandoned government-owned homes to new owners for a nominal sum, on the condition that the homes be improved and placed back on the city's tax rolls.

The Reagan urban policy, then, envisions a new burst of economic life for the cities; greater resources to meet needs determined at the local level; more flexibility for local governments; and creative, new approaches to unleashing neighborhood self-help initiatives under the control of neighborhood residents.

NEIGHBORHOOD POLICY

A Report of the Neighborhood Advisory Group
to President-elect Ronald Reagan

November 16, 1980

Advisory Group Members Who Participated in
this Report:

Dr. Robert Hawkins , Chairman
President, Sequoyah Institute, Sacramento, California

Dr. Roger Ahlbrandt, Jr.
School of Social Work, University of Pittsburgh

Edward Aponte,
Manager, South Bronx Branch, Citibank, New York

Richard J. Bela, Esq.
Avante, San Antonio, Texas

Susan A. Davis
President, Successful Woman, Inc., Washington

Phil LoPresti
Consultant in Community Economic Development, Washington

Hon. Lois McManus
Member of the City Council, Greensboro, N.C.

Robert B. O'Brien, Jr.
President, Carteret Savings and Loan, Newark, N.J.

Sen. Philip Price Jr.
State Senator, Philadelphia, Penn.

James T. Williams
James T. Williams & Associates, Barrington, R.I.

John McClaughry, Staff Coordinator
Senior Policy Advisor to Governor Reagan

as Missouri and Michigan, have recently started similar programs modelled on the Pennsylvania experience.

We recommend that the Internal Revenue Code be amended to allow a credit against federal corporate income tax of 10% of the credit allowed under state laws similar to Pennsylvania's. Using the foregoing example, the federal credit would be \$500, and the net after tax cost of a \$10,000 contribution would be reduced to \$1,633.

Since such a credit would be dependent upon the enactment of state tax credits, the effective date of the measure should be put off until 1983 to give more states the chance to enact the required measures. The federal amendment should be in force for a trial period of five years, after which its effectiveness could be properly evaluated.

Recommendation 6: Neighborhood Housing Services

The Neighborhood Housing Services program, now managed by the Neighborhood Reinvestment Corporation, has been a signal success. A major reason for that success has been the NHS technique of bringing local governments, lending institutions, and neighborhood organizations together in a working partnership to deal with housing improvement problems. Aside from the provision of technical assistance and access to a revolving loan fund at the beginning, the NHS program relies on maximum local initiative and control.

We believe the NHS program should be strongly supported. Its present budget level of \$13 million could profitably be increased to perhaps \$20 million, provided the additional funds can be effectively used without making the program into a bureaucratic enterprise like so many of its predecessors.

Neighborhood Preservation

Private foundations, religious groups, and other private institutions are encouraged to continue their sponsorship and financing of innovative programs in housing construction and rehabilitation and access to homeownership. Neighborhood preservation activities should continue to be used to preserve and upgrade housing in older areas with every effort made to benefit low-income people and to avoid displacing them.

Consistent with the President's support of voluntary efforts to deal with major human needs, the Commission wishes to encourage continued involvement of churches, foundations, neighborhood development organizations, and others in efforts to meet housing and community development needs. Although such groups had mixed success in the subsidized housing programs of the late 1960s and early 1970s, their contributions to low-income housing in recent years have been substantial. They have been particularly successful when they have worked with private entrepreneurs by forming joint ventures to capture a portion of the money which high tax bracket investors are willing to contribute in exchange for the project's tax shelter benefits (because of the depreciation tax losses available on the buildings). These funds, called syndication proceeds, are then used for the benefit of the residents of the facility.

Because of their commitment to the quality of life of low-income households in rural and urban areas, nonprofit groups are often particularly suited to play an important role in housing and neighborhood improvement efforts. The Commission recognizes that its proposals would curtail some direct development activity that these groups have sponsored under Federal programs such as deep-subsidy new construction programs. However, limited Federal resources now make voluntary efforts increasingly important. There are a number of roles that private institutions can continue to play in concert with Federal, State, and local housing programs. In particular, the availability of a Housing Component within the Community Development Block Grant program will broaden the range of activities in which local groups and local governments can work together on neighborhood improvements and housing efforts. Many groups will want to continue their joint developments with for-profit sponsors of both rental housing and cooperatives and utilize subsidies available through the CDBG program to do so. Local revolving loan programs and other supportive service programs may continue to be available because they have alternative sources of funds. Other groups that have successfully managed to rehabilitate properties will find that they can continue to do so and also obtain housing payments to assist the low-income tenants in the buildings.

One example of successful public/private/neighborhood partnership is the Neighborhood Housing Service (NHS) program. The partners—private lenders, residents, and local businesses—work with NHS offices to revitalize neighborhoods. NHS makes below-market interest rate loans to neighborhood residents who cannot afford or obtain private financing, and also provides supportive services such as financial counseling, property inspections, and construction monitoring. Where NHS programs have operated in neighborhoods, they have been a stabilizing factor, stimulating rehabilitation and preventing displacement of lower-income homeowners in the neighborhood.

In over 120 cities, the Neighborhood Reinvestment Corporation, a Congressionally chartered public corporation, has brought together the NHS partnerships, provided assistance to the local volunteers in marshaling private and public resources, and continued to offer training and technical assistance so that NHSs remain effective local revitalization mechanisms. One of the newer strategies developed by Neighborhood Reinvestment is the NHS/Apartment Improvement Program, which has utilized over \$27 million in conventional financing to rehabilitate rental properties without displacing low- and moderate-income families. Neighborhood Reinvestment has also been instrumental in establishing a secondary market to purchase local NHS loans, which includes participation by private insurance companies.

The Commission encourages States and localities to develop financing programs, public/private partnerships, and other mechanisms to help preserve older neighborhoods, but every effort should be made to avoid displacement of low-income people in this process. Many older residential structures have not been kept in good condition, although these buildings could provide a source of standard housing for lower-income households if appropriate resources were available for their renovation.

Excerpt from Report of President's
Commission on Housing.

Homesteading, More NHS Funds Sought as Aids to Urban Areas

NEW YORK.—President-elect Ronald Reagan's housing task force is urging action to reverse the decline in home ownership among blacks and Hispanics in urban areas.

A draft report sent to Mr. Reagan which was obtained by *National Thrift News* offers a six-point program designed to improve the rent subsidy programs operated by the Department of Housing and Urban Development.

These programs are aimed at stimulating construction of affordable rental housing in low- and moderate-income areas.

The recommendations are significant since the task force is headed by Carla A. Hills who served as HUD Secretary in the Nixon Administration.

The group praised the Neighborhood Housing Services program as one of "the most outstanding efforts to improve housing in older urban areas."

The task force "recommends that strong financial support be given" to NHS.

It also "recommends that consideration be given to co-insuring mortgage loans on commercial and other real estate" in an NHS area on approximately a 70:30 ratio (70% of risk on the FHA and 30% on local participating lenders).

This approach could be coupled very creatively with the urban jobs and enterprise zone concept which the President-elect has endorsed, the report says.

On the issue of ownership, the task force says "the accelerating inflation of recent years has hit particularly hard at those households which have previously been able, if just barely, to buy homes.

"There is a new and alarming trend,"

since the mid-1970s, not often or adequately recognized: "homeownership has begun to decline among minority groups, notably blacks and Hispanic Americans, and particularly in our cities."

The report recalls that during the campaign Mr. Reagan urged expanded use of urban homesteading, "which would make abandoned homes available at no cost to those who undertake to live in and renovate them."

This is a potentially important means of increasing home-ownership opportunities "for those who have been forced out of the market by inflation, as well as a tool in rejuvenating American cities."

Although the original conception of the rent subsidy program "was to provide a subsidy solely in the form of rent that would allow projects to be financed at market rates either conventionally or with FHA insurance, virtually no projects have been built without the benefit of a second subsidy," the task force says.

The subsidy cost to HUD for new or substantially rehabilitated rental units now averages from \$5,300 to \$6,200 per year for a 20-40 year term.

The costs of the second subsidy are at least half again the cost of the direct subsidy.

In fiscal 1976, the last year of the Ford Administration, HUD funded more than a half-million units of new and existing subsidized housing.

In the current fiscal year HUD will fund only 230,000 units.

"There has been understandable resistance to spending upwards of \$10,000 per unit to produce subsidized housing for lower-income families," the report says.

NEIGHBORHOOD CONSERVATION AND REINVESTMENT



Constance Beaumont, Editor

November 13, 1980

Volume IV, Number 20

Neighborhood revitalization. Enthusiastic about neighborhood self-help efforts -- "They are in the best American tradition," Reagan told the National Urban League last August -- the president-elect has promised to "act aggressively to strengthen neighborhood revitalization efforts such as the highly successful Neighborhood Housing Services and Urban Homesteading programs." These two were virtually the only urban programs singled out for praise by Reagan during the campaign. Reagan thinks the federal government can help best in this area by "eliminating unnecessary federal intervention which undermines neighborhoods, and by assisting city governments in testing creative new arrangements for giving neighborhood residents more control over their public services through, for example, voucher systems, user fees, and private contracting."

Taxes. Reagan's entire urban policy is based on the premise that urban areas will revive when and only when the general economy improves, and for that to happen, taxes on businesses must be reduced. Reagan has endorsed a Senate Finance Committee tax bill (HR 5829) reported out of committee last September. Among other things, the bill allows simplified accelerated depreciation schedules for commercial structures and raises the investment tax credit for commercial rehab from 10 to 25%. While it now appears almost certain that this proposal will not clear the current lame-duck Congress, it appears equally certain that similar legislation will be introduced and acted upon early next year.

Historic preservation. Given Reagan's views on categorical programs, the Heritage Conservation and Recreation Service's preservation grant program doesn't seem to have a bright future. But then it hasn't fared well under the Carter administration, either, and already the House and Senate have pared the program's fiscal year 1981 appropriation down to \$32.5 million -- or less than \$1 million per state. On the other hand, Reagan's views on taxes bode well for federal preservation tax incentives. And finally, and perhaps most significantly, Nancy Reagan is reported to have an interest in preservation.

Reagan is on record as favoring elimination of federal inheritance and gift taxes. This could help preservation, since many people who inherit historic properties sell them for development because they can't afford hefty inheritance taxes.

(One of the few liberal Senators to escape defeat in the election was Sen. Patrick Leahy of Vermont, the Senate Appropriations Committee member who has taken the greatest interest in funding preservation.)

Housing. While "recogniz(ing) the need for continued federal housing aid for low-income families and the elderly," Reagan says he "would seek to replace complicated categorical grants with flexible block grants, to better allow local officials to meet local needs."

Already in trouble with a budget-conscious Congress, HUD's Section 8 program may be modified to put more emphasis on preservation and rehabilitation of existing housing, and less on new construction. Or it could be eliminated altogether in favor of a housing block grant program.

of the hundreds of FFC applications received, the SCDF selected 80 participants. No previous farming experience was required. The Department of Labor, along with Israeli government personnel experienced in establishing cooperative settlements, trained farmers in the agricultural and social aspects of a cooperative farming lifestyle. Following a two-year training period, FHA will make 40-year, low-interest loans to those participants who have proven their capacity to succeed as members of the cooperative settlement. The farmers will receive the deeds of the 5 to 20 acre tracts.

The Prudential Insurance Company has loaned \$1.5 million to another cooperative farm program for minorities. The loan was used to buy a 3,200 acre farm that will serve as the training site for a federally supported agricultural program. Additional funding came from the Economic Development Administration, the Department of Labor, the Community Services Administration, the Ford Foundation and several other private investors.

The land will be subdivided into 30 acre parcels and transferred to families which will grow, on a year-round basis, soybeans, cotton and winter wheat, while receiving intensive training in agricultural production and farm management. Farmers who successfully complete a two-year training program will then be permitted to purchase their land, with possible financing assistance from the federal Farmers Home Administration.

Future Directions

More and more, insurance firms are finding that company partnerships--similar to the original Urban Investment Program--are an effective means of supplying investment dollars for projects of high social impact.

Forty-five life and health insurance companies across the nation have joined with the nonprofit Neighborhood Housing Services (NHS) to form the NHS-Insurance Industry Full Partnership Program. NHS programs, now in 127 cities, operate with partnerships of neighborhood residents, business leaders and local government officials to revitalize declining neighborhoods. NHS programs have generated over \$1 billion in reinvestment since the first was established in Pittsburgh in 1968.

By late 1982, NHS-Insurance Industry Full Partnership Programs were operating in eight cities, serving 26 neighborhoods. The insurance companies had contributed over \$1.1 million, and thousands of volunteer hours of managerial expertise.

NHS loans are, by definition, "unbankable" and require more liberal terms than the private market accepts. Neighborhood Housing Services

of America (NHS) met the liquidity needs of the NHS programs by purchasing NHS loans through a loan purchase pool funded by Neighborhood Reinvestment Corporation grants until 1978.

That year, The Equitable Life Assurance Society purchased \$1 million in NHTSA notes backed by NHS loans. This was the first significant step in the creation of a secondary market for NHS revolving loan funds. Based upon their successful experience, in 1980 the Equitable agreed to expand this commitment by purchasing an additional \$2 million in notes.

Equitable's purchases have enabled NHTSA to replenish the loan funds of NHS programs across the country. By late 1982, NHTSA had purchased loan packages totaling \$2.8 million. The strength of this new secondary market has added momentum to local NHS programs by boosting both homeowner and lender confidence.

Recently, Prudential committed \$5 million in low-interest loans to help create a new secondary market for first mortgages administered by NHS programs to provide below-market loans to buyers of properties which have been "sticking points" in their neighborhoods, such as vacant lots, vacant and abandoned houses, and under-maintained rental units. This new secondary market was one component of a four-part program involving Prudential, Prudential Property and Casualty (PRUPAC) and the NHS movement. The other components are a contributions fund for Insurance Industry Full Partnerships, an experimental homeowners policy for properties undergoing rehabilitation, and the involvement of PRUPAC personnel as volunteers in NHS programs.

The Allstate Insurance Company has invested \$500,000 in a for-profit subsidiary of the Chicago Neighborhood Housing Services. This corporation--New Partnerships, Inc.--is purchasing, rehabilitating and operating apartment buildings in five NHS neighborhoods utilizing the seed capital provided by Allstate. (For more information on NHS and NHS programs see Chapters 4 and 13).

The College Endowment Funding Plan

A growing number of insurance companies are pooling investment funds to finance the College Endowment Funding Plan (CEFP), an innovative method of building endowment for small, under-financed, minority colleges. It combines gifts secured by colleges with borrowed funds to form a 25-year investment package. During the life of the investment, earned income provides funds for current expenditures of the colleges, while accruing endowment. An important feature of CEFP is that only interest on the loan is paid for the first 15 years. Ten percent of the principal is retired yearly during the last ten years. Participating insurance companies lend funds at a discount from the rate

spaces, offices and housing. All permanent financing and 25 percent of the construction financing is being provided by a local lender using CIF.

+ A Portland, Oregon, lender used CIF to finance the construction of a solar home designed for inner-city use. If the model is successful it will be replicated in other parts of the country.

Neighborhood Housing Services and the Neighborhood Reinvestment Corp.

The Neighborhood Housing Services (NHS) program is a unique partnership of public, private and community interests working together at the neighborhood level. Each NHS is funded primarily by local private businesses: savings institutions are the largest contributors.

In mid-1982 these programs were serving about 176 neighborhoods in 127 cities, operating in 43 states and the District of Columbia.

Programs are in most large cities, but are also being organized in a growing number of smaller cities and towns. One-fifth of the neighborhoods have 85 percent or more minority occupants, one-fifth have populations 15 percent or less minority, and the remainder have populations between 15 and 85 percent minority. The neighborhoods served range in size from as few as 600 dwelling units to as many as 10,000.

The programs are coordinated by the Neighborhood Reinvestment Corporation (NRC), created by Congress in 1978.

The NHS program began in Pittsburgh in the late 1960s. Seeking to improve the quality of housing in their community, residents of the city's Central Northside neighborhood initiated a series of discussions with financial leaders and city officials. Ultimately those discussions resulted in a working partnership through a local, nonprofit corporation called Neighborhood Housing Services, Inc. of Pittsburgh, which provided housing rehabilitation services including a revolving loan fund.

NHS programs are administered by NHS staff members from offices in the neighborhoods. They are governed by a local board of directors made up of neighborhood residents, at-large community members, private sector representatives and city government representation or liaison.

Funds for operating budgets are provided by participating financial and business organizations. Government funds are contributed to the revolving loan fund and in some cases to a portion of the operating funds, but efforts are made to ensure that government funding does not

damage the program's private character.

The goal of all of these programs is to revitalize neighborhoods. They include Neighborhood Preservation Projects, aimed at finding new revitalization strategies; the Apartment Improvement Program, which concentrates on large, deteriorating apartment buildings; Problem Properties Strategies, aimed at encouraging tenant purchases and vacant property sales; the Urban Lender Program, providing training for lenders and underwriters; Owner-Built Homes programs, which help moderate-income homeowners collectively build their own homes with private financing; Energy Conservation, including counseling, energy audits and helping residents make cost-effective investments; and Neighborhood Business Centers, aimed at strengthening small businesses, improving the area's physical environment and providing additional goods, services and employment for the community.

Here are two examples of NHS programs:

The NHS Apartment Improvement Program (AIP)

Now operating or being developed in 16 communities, the AIP program brings together the city, financial institutions, property owners, tenants and neighborhood organizations to upgrade large apartment buildings that have become a blight in their neighborhoods.

The program began in Yonkers, N.Y., a suburban community of New York City. In 1976, the Urban Reinvestment Task Force, the predecessor to NRC, began trial replications of it in Hartford, Conn., and Mount Vernon, N.Y.

The catalyst for the Mount Vernon AIP was the Eastchester Savings Bank, which had been active in the Yonkers AIP partnership. Working with city leaders, a target area of 19 apartment buildings was defined.

Neighborhood meetings were held to involve tenant and community organizations, and a lenders' luncheon was co-sponsored by the federal financial regulatory agencies and the New York State Banking Department. A special workshop brought property owners, tenants, community organizations and representatives of the city and financial institutions together. Partnership and building evaluation committees were formed, each with representatives from the four sectors of the partnership.

Over the next six months, the partnership committee worked with the city staff to create the program's structure and the building evaluation committee developed criteria for building selection. The city underwrote the costs of AIP, and supplied its staff with assistance from other city agencies. It also made a commitment to reduce taxes to

reflect current income.

Although AIP is city-administered and funded, lending institutions are directly involved as mortgage holders and committee members. A complex of four apartment buildings was chosen as the initial effort. A balloon mortgage of \$1.1 million was coming due. But the two lending institutions involved—New York Bank for Savings and Eastchester Savings bank—agreed to restructure the mortgage to provide funds to rehabilitate the building. The building owner and city code inspectors worked with the tenants to develop the final work plan. Since then 676 units have been rehabilitated in Mount Vernon through AIP.

The NHS Urban Lending Program

Because suburban areas have been the focus of most housing development since World War II, appraisers and loan underwriters often know more about suburban tract housing than about city neighborhoods.

At the request of the FHLBB, the Neighborhood Reinvestment Corp. was asked to develop a program to make appraisers and underwriters more knowledgeable about urban areas. The result was the Urban Lender Program, first used in Baltimore. Working with the Baltimore NHS partnership, NRC designed a program combining formal course work with field experience. The Baltimore program is now self-sufficient, and a second program has been established in Chicago. (For a further discussion of NHS see the Partnership Innovations chapter).

Neighborhood Economic Development

The Greater Southwest Development Corporation, a community development group originally financed by local business on Chicago's Southwest side, has been acclaimed as a "national model program" by the NRC. Programs based on the model will be established in several other cities.

Six savings and loan associations formed the Greater Southwest Community Service Corporation in 1974 to serve as the Development Corporation's financial arm for commercial revitalization projects. The continued commitment of savings institutions and banks to the area is one of the factors which led to the selection as a model program.

Through DevCorp, local financial institutions can provide financing for commercial revitalization projects essential for neighborhood strength and stability. Its first project was the purchase of a 50-year-old, nearly-vacant building at a key commercial intersection in the neighborhood. The building was restored to a modern structure, fully occupied and income-producing. The second project involved the

purchase of a burned-out food market which had been vacant for several years, remodeling the building, and selling it to a private owner.

When many commercial developments were stopped by high interest rates, DevCorp created the Greater Southwest Local Development Co. to obtain lower cost loans through the Small Business Administration. This has resulted in an investment of more than \$1.5 million in new businesses or improvements.

In 1980 DevCorp also began serving as the Southwest Side agency for a new repair program developed by the city of Chicago for senior citizens and handicapped persons. Individual projects are limited to \$5,000 in materials and labor and include preventive maintenance such as caulking, replacing windows and cleaning gutters.

DevCorp was created in the beginning as a totally local development group, financed by local business and industrial firms. Over the years it has received a number of grants for special projects and was sometimes the leader in private projects. But most of the money still comes from local financial institutions and business firms.

Corporate Investment Opportunities

Today, a number of major corporations are investing a portion of their liquid assets in certificates of deposit and other investment vehicles of minority owned and operated savings institutions.

For example:

+ Arco Corporation, Los Angeles, California, has earmarked an annual budget of \$2.6 million for deposit in minority owned and controlled savings and loan associations and banks. The company is providing investment capital to about 60 institutions through this program.

+ Prudential Insurance Company of America in 1981 had deposits of \$5.6 million in minority thrift institutions, including both non-interest and interest-bearing deposits. Through this program, funds were deposited in 93 banks and 73 savings and loan associations with minority management or ownership.

Energy Lending Initiatives

Savings institutions have responded to the problem of escalating energy costs in three ways: by marketing loans to improve energy-efficiency, offering builders and buyers of new homes special

Another excellent example of a national investment partnership is the **National Reinvestment Corporation (NRC)**. (See box). This partnership specializes in rehabilitating housing in neighborhoods in incipient decline. Differing from the preceding examples, however, NRC does not generally use an existing community organization to achieve its objectives. Instead, it builds a coalition among residents, business leaders, and local officials. This coalition then creates a nonprofit entity known as a **Neighborhood Housing Service**. (See Chapters 3 and 4).

The NHS is an independent entity, and relates directly to NRC—the administrative arm—for needs such as training and information dissemination. Today, the Neighborhood Reinvestment Corporation (NRC) comprises the largest network of partnerships ever stimulated by a federal initiative. Over the past 12 years, a unique combination of over a million volunteer hours, more than \$100 million in contributed local support and \$62 million in federal funds has generated over \$1 billion in reinvestment in neighborhoods in 43 states and the District of Columbia. Over the years NRC has benefited from substantial capitalization by the federal government, from a secondary market vehicle—Neighborhood Housing Services of America—initially capitalized with a grant from the Ford Foundation and subsequently financed by several insurance companies, and significant involvement at the local level by government, commercial banks, saving and loan associations, credit unions and increasingly non-financial corporations.

NRC begins its involvement in a community by sending personnel whose task is to identify the resident, business, and government leaders with an interest in developing an NHS. Then NRC specialists steer each community through a developmental process designed to allow the residents to discover for themselves what their needs are. This is usually accomplished through tours and meetings, culminating with a two-and-a-half-day retreat where participants air complaints and hash out community problems. Each of the three groups—lenders, residents and officials—caucuses separately to decide what it will offer and what it expects in return. Finally, three groups reconvene to reach a compromise that is acceptable to everyone. Once the partnership has been launched, NRC staff fade into the background and let local lenders, through the NHS, take the initiative.

There is no prototypical NHS program or neighborhood. The process is flexible and designed to adapt to the needs of the particular target community. For example, Albuquerque, New Mexico, has an NHS in a downtown neighborhood, which developed in the early 1900s as a melange of Victorian mansions, bungalows, owner-built adobes, Prairie School houses and local vernacular styles. By the early 1970s, it had become dilapidated and plagued by absentee ownership. The residents who remained feared they would be displaced because most of the area

**Neighborhood Reinvestment Corporation
Neighborhood Housing Services
Neighborhood Housing Services of America**

Objective:

+ To promote, through the use of partnerships revitalized neighborhoods for the benefit of current residents.

Organization:

+ NRC is public corporation, receiving federal funds and governed by a board comprised of the head of the federal financial regulatory agencies. NHS programs are locally controlled nonprofit corporations that join residents, business leaders, and officials of local government in a partnership board. NHSA is a nonprofit that serves as a secondary market resource.

Financing Operation:

+ Key to the operation of NHS is a revolving loan fund that is capitalized by grants made by the NRC, local governments, foundations and industry. The fund provides loans at flexible rates and terms designed to meet the ability of the borrower to pay. These resources are for people who do not qualify for conventional loans.

+ NHSA was created to serve as a "bank" for NHS programs. It provides a secondary market resource so that the revolving loan funds can be replenished. The Equitable Life Assurance Society pioneered the purchase of \$3 million in NHSA notes. Loans from local NHS programs were used as collateral. Prudential Insurance Company has a \$5 million commitment for a secondary market first-mortgage fund designed to provide below-market financing.

THE WHITE HOUSE
WASHINGTON

February 28, 1983

Dear Ed:

I welcome the opportunity to congratulate the Neighborhood Housing Services of America on its efforts to promote activities and projects for commercial and residential revitalization of deteriorating neighborhoods. I am particularly pleased that you have developed a public-private partnership as the vehicle for attaining your goals.

My Administration is convinced that private initiative can accomplish far more than government programs alone ever could. I have been deeply impressed by the many generous responses to our call for a return to that same independent spirit which built this Nation. I commend you and all those involved in the Neighborhood Housing Services of America for your innovative efforts.

With my appreciation and best wishes for success,

Sincerely,

Ronald Reagan

Mr. Edmund C. Sajor
President
Neighborhood Housing Services
of America
1951 Webster Street
Oakland, California 94612