THE NETWORK BUILDER

Issue No. 31 Summer 1997 The Chicago Rehab Network Newsletter

Extending Homeownership

Street Level Lenders Discuss What Works and What Doesn't

CRA and a national spotlight on homeownership have encouraged lenders to extend their services to a wider range of first-time and low to moderate income homebuyers than ever before. The Chicago Rehab Network invited street level loan officers from Chicago banks to discuss recent developments. We asked them about the obstacles they see low income families facing as they struggle to become homebuyers, and to what extent these obstacles can be minimized without sending families on their way to default. They said they were glad we asked.

"What has changed in lending to first-time and low to moderate income homebuyers in the past one to two years?"

As the conversation opened, the key words were flexibility and incentives.

Leony Tavas Scott of First National Bank of Chicago explains that the recent changes she's seen have less to do with relaxing the underwriting guidelines that determine who qualifies for a mortgage - "I think we've dealt with that" - and more to do with the pricing. "It's the incentives part of the package, and what you're willing to add to the pot."

Calvin Ward of Northern Trust agrees. "The general homebuyer asks 'What do you have to offer me as a first time homebuyer?' and you find yourself bringing out this long list of incentives."

Carl Pietraszewski of LaSalle Home Mortgage Corporation says he is willing to mix and match features from different programs. "It's not where if you don't fit into a box, you're out."

"That's why you end up with several variations," Estella Porter Pruitt of Harris Trust agrees. "You'll take a first time homebuyer with a low downpayment going into it, if they also make a certain amount of money."

Why such accommodation? "Competition," Carl says simply.

"In the past, these loans have proven to be profitable," Estella says.

"What changes do you anticipate in the next 1 to 2 years?"

The comments became a little more stern. No one thought we'd see underwriting guidelines relaxed any further, for instance.

"It's relaxed," Kein Burton of Old Kent Bank says. "It's relaxed

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Our homebuyer counselor has been getting calls from people who have heard they can use their Section 8 certificates to buy homes, and want to know where to begin. Come to think of it, we have been hearing rumblings to the effect that Section 8 certificates might be made into ownership opportunities for several years. President Clinton has been vowing to drum up record numbers of new homeowners by the year 2000. Will Section 8 help bring that promise over the top?

HUD's Louise Hunt tells us the rumors have their source in actual legislation authorizing the use of Section 8 certificates for purchasing a home. "It's Section 8Y of the U.S. Housing Act. It passed 4 or 5 years ago. We got as far as the rule making process, but realized it wasn't working," she explains. "There was no interest from lenders."

Current efforts focus on making such mortgages more appealing to the lenders who would underwrite them. House and Senate authorizing committees are working out provisions for lease to purchase arrangements. There are negotiations with Freddie Mac to buy some of the eventual mortgages. A successful program will have to meet the needs of the private market, Louise explains.

Have lenders expressed doubts about underwriting 30 year mortgages based on short term rental certificates? "We don't know exactly what their reservations are," Louise answers briskly. "This is definitely in the future," she adds. "It might be a year away."

The new possibilities of Section 8 mark the tension behind our issue on homeownership. On the one hand, this determination to pull homeownership out of a Section 8 certificate plays itself out in the context of a larger public housing downsizing that already prescribes the wrecking ball for thousands of units of housing in Chicago. In this context, a Section 8 homeownership program may do less to impact our growing affordable housing shortage than it does to illustrate the mania for homeownership that our public officials prefer to talk about instead. The affordable housing we have the hardest time supplying in Chicago is for households earning between 16 and 80 percent of the area median income. Ownership is not the most effective way to meet the housing needs of most of these families.

On the other hand, homeownership can be a dramatic way to improve the situation of some of them. Many housing advocates see ownership as a way for low income families to take control of their situation, to accumulate equity that could help lift them from poverty, and to achieve staying power in changing communities - or at least to allow them to benefit from rising property values that might ultimately displace them.

If we are determined to extend homeownership beyond the families who traditionally qualify, it will require careful attention to the challenges involved and a willingness to make a long term investment in preparing families to meet them. This investment entails homebuyer education and counseling. It reinforces the need for standards to guide the mortgage industry, and for renewed attention to techniques that can directly impact affordability — from energy efficiency to non-detached ownership options such as housing co-ops and condominiums. Finally, it calls out for more efforts like the Chicago Partners in the American Dream - more cross-sector collaboration, and more big plans.

The Network Builder is published by the Chicago Rehab Network (CRN) and is available to individuals and organizations concerned with the continuing supply of decent housing opportunities for low and moderate income residents of Chicago. Inquiries should be addressed to:

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Homeownership for an Enduring One America

by Kevin Jackson

Kevin Jackson is Executive Director of the Chicago Rehab Network.

We are in the midst of a national movement to increase home ownership to a wider spectrum of families. New programs by Fannie Mae, the National Homeownership Strategy (locally known as Chicago Partners), lending institutions and the City of Chicago have made ownership a reality for people who only a few years ago would not have qualified to own their own home. The Chicago Rehab Network has taken an active part in this general push both as fiscal agent and technical assistance provider to the Chicago Partners in their commitment to create 5,000 new homeowners by the year 2000 [see page 18].

Yet the Chicago Rehab Network's largest commitment to homeownership predates the Chicago Partners. Since 1994, the Network has helped its members develop single family homes in their communities through our Single Family Loan Fund. With about $1.5 million from HUD's HOPE 3 program and IHDA's Affordable Housing Trust Fund, CRN gives low interest loans and grants to non profit developers who buy and rehab abandoned homes. These homes are then sold to families earning less than 80 percent of the Chicago area median income.

The non profit organizations who develop and sell these properties have a long term commitment to the neighborhood. In contrast with the recent press about real estate firms who disappear after selling a defective product to naive first time buyers, the developers we work with identify their mission with the success of the families who buy their homes. This means they are committed to maintaining a link with the new homeowner through pre-purchase training and post purchase follow up. The community link can prove vital to promote the sustainability of these new home ownership opportunities.

A recent example of the Network's Single Family Loan Fund in action is the house WECAN recently developed at 7047 S. Prairie. The building had undergone HUD foreclosure and abandonment, and had become a public eyesore on an otherwise well maintained block. Using the Single Family Loan Fund, WECAN was able to purchase and rehab the house even though they were able to bring very little money to the project. WECAN bought the building in November 1996. Extensive rehab, including all new heating, bathroom, kitchen, interior walls and the enclosure of the back porch, was completed this month, and WECAN just celebrated an open house there on September 10th. A first-time homebuyer can buy this beautiful 3 bedroom house on a nice block for under $69,000.

The Network believes our efforts must not focus on creating new homeowners to the exclusion of retaining the homeowners we helped move in last year. Ownership without retention will not realize the benefits of community stability, or any of the other tangible gains associated with ownership. If current homeowners are to remain in their properties, we must take preventive strategies to mitigate market forces that otherwise undermine the stability of affordable housing in changing neighborhoods.

Chicago Rehab Network's Property Tax Initiative is one example of a pro-active move for homeownership retention. First conceived by CRN member Uptown Habitat for Humanity, the Initiative has entered a working group with new Cook County Assessor James Houlihan to provide relief to long time homeowners who have limited or fixed incomes in neighborhoods where property values are escalating rapidly.

CRN is involved with these programs because home ownership is one of the strategic ways our member organizations can rebuild their communities and allow existing residents the opportunity to remain and increase their stakehold in the neighborhood.

Having said that, it is worth concluding on a more cautionary note. Applied indiscriminately, the national enthusiasm for homeownership, expressed by President Clinton in a speach known as "One America," could turn out to be a slippery slope, one threatening to slide us right back into separate communities of "haves" and "have nots." Our success in making sure that our focus on homeownership creates new opportunities, without superseding old ones, depends on our ability to acknowledge that our diversity is not just physical, but also social and economic: not everyone wants to, or should, own a home. A diverse housing mix - one that mixes rental and ownership, as well as ethnic and economic groups - is our best guaranty for an enduring "One America."

Helping to Make Housing Affordable Through Energy Efficiency

by Jim Cavallo

Jim Cavallo is the manager of the Existing Buildings Efficiency Research Program at Argonne National Laboratory.

Recently, a director of a community-based organization told me about a woman in his community who was working with a financial counselor in an attempt to put her finances in order. Her difficulties had begun during the past winter when she was repeatedly forced to chose between paying her rent or paying her natural gas bill.

This is not an unusual dilemma. During Chicago winters, many families can find their budgets destroyed as their heating bills soar. A natural gas bill of $35 or $40 per month during the late spring, summer, and early fall can grow to over $300 during the harsh winter months.

The woman is stuck with paying off the bills that had accumulated over the past winter. But she was at least lucky to be telling her story to a member of this particular community group, because it has been participating in several energy conservation programs sponsored by the Illinois Department of Commerce and Community Affairs, the U.S. Department of Energy, and Argonne National Laboratory. My friend is currently working with this woman to identify low cost measures to reduce her energy bills during the coming winter, as well as ways to finance those measures.

Energy efficiency can play an important role in reducing the costs of operating apartments or houses. For low income homeowners, when high heating bills threaten to compete with their mortgage payments, energy efficiency can play a significant role in their ability to sustain their mortgage. For instance, a modest 1200 square foot house can often cost a low income family over $750 per year for space heating (that's natural gas costs minus service charges and the cost of gas for cooking, water heating, and other services). By contrast, the Affordable Energy Home Center, a house developed by Bethel New Life, ComEd, Argonne Labs and the city's Department of Housing to demonstrate high levels of energy efficiency, will cost less than $200 per year for space heating. Similar homes or apartments that achieve more moderate levels of energy efficiency will cost about $350 per year to heat. That's a substantial savings - roughly the equivalent of one month's mortgage payment in some low income neighborhoods.

For low income homeowners, when high heating bills threaten to compete with their mortgage payments, energy efficiency can play a significant role in their ability to sustain their mortgage.

Researchers at the Department of Energy's national laboratories have been working for a number of years to make the benefits of energy efficiency available to both homeowners and apartment dwellers by monitoring energy consumption and developing new technologies. Many of the tools and techniques used by weatherization agencies and by community based energy analysts have grown out of studies of basic building science conducted by research centers at universities and national laboratories.

Yet there is a need to bring the tools developed within the laboratory walls out into the community. To accomplish this, laboratory researchers working with state and federal energy office staff are giving direct technical assistance to community based organizations. Not only can the researcher help the community implement the innovative energy conservation measures, the researcher can adapt the technologies to serve the needs of the community by working alongside the contractors building the project.

The composite wall system developed by researchers from Argonne Labs and Oak Ridge National Lab is one such example of technical assistance working in tandem with research. The uninsulated walls of older buildings are frequently contaminated with lead based paint. When contractors address the lead poisoning hazard by applying liquid encapsulants on uninsulated walls, the expansion and contraction caused by temperature swings and the frequent presence of condensation on the walls cause the encapsulants to deteriorate within a few heating seasons.

The Argonne-Oak Ridge team developed the composite wall system as a low cost alternative to liquid encapsulants. The system consists of 1-1/2 inches of rigid insulation and 1/2 inch Fiberbond - a reinforced gypsum board with a high recycled materials content. The wall is constructed without studs that would create "thermal bridging" - compromising the insulation of the wall system. Instead the wall is hung at the ceiling and the floor. The wall system creates a tight, well-insulated, and extremely strong interior surface to masonry walls, and it provides a permanent encasement of the lead poisoning hazard. The composite wall system has been installed at the Brooks Homes Development of the Chicago Housing Authority where it will be monitored over the coming heating season.

By bringing together lead hazard encasement with substantially increased wall insulation, we expect to conserve enough energy to pay for much, if not all, of the costs of lead hazard reduction through utility cost savings. Plus, the idea of bringing together these two processes - lead hazard reduction and energy conservation - only occurred to laboratory researchers when they were asked to confront the real life problems faced by contractors, housing officials, and community developers.

The first and most enduring effort to combine direct technical assistance by national laboratory researchers with a community based organization was brought about serendipitously when Mary Nelson, President of Bethel New Life, found herself sitting next to Harvey Drucker, Argonne's Associate Laboratory Director for Energy and Environment Sciences, at an annual United Way campaign. One talked about a community's need for housing, jobs, and business; the other spoke of technologies developed at national labs that might be of use to urban communities. They decided to form a partnership to probe how Department of Energy tools, techniques, and technologies developed at national laboratories can create energy efficient affordable housing, livable wage jobs, and environmentally sustainable businesses in low-income communities.

The Affordable Energy Home Center demonstrates high levels of energy efficiency in modestly priced housing. It is a part of Bethel's Parkside Development -- one of the focused area developments in the Chicago Partners in the American Dream.

"Not only can the researcher help the community implement the innovative energy conservation measures, the researcher can adapt the technologies to serve the needs of the community by working alongside the contractors building the project."

The affordable housing component of the partnership initially focused on providing technical assistance in using high efficiency measures for insulation, space and water heating, air sealing, and lighting. The Laboratory is now working with Bethel and many other community based organizations in a larger partnership - the Chicago Partnership in the American Dream [see page 18]- which will develop homes for 5,000 residents of low-income neighborhoods in six to ten focused area developments in Chicago and suburban Cook County. Again, the Laboratory will provide technical support for incorporating energy efficiency to make the homes more affordable in the long term.

Besides the work in energy efficient affordable housing, laboratory staff have collaborated with Bethel on the use of recycled materials, lead-based paint abatement, and the characterization of "brownfield sites" - former industrial properties that are often contaminated by hazardous wastes.

Since Argonne and Bethel initiated their partnership, the Department of Energy has created its Partnership for Affordable Housing program to improve the energy efficiency and affordability of public and privately owned housing throughout the nation.

The program seeks to establish voluntary collaborations with housing authorities, utilities, community developers, and housing managers to meet needs defined by local housing providers. These partnerships are designed to help communities build lasting capacities for technical analysis, financial management, and project management, and to apply proven and innovative technologies and practices that save energy.

The goals of the Department of Energy's Partnership for Affordable Housing are (1) to incorporate energy and resource efficiency in the retrofit and construction of over 1 million residential units by the end of the year 2000, (2) to promote a

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Cooperatives: Resident-Owned, Resident-Controlled, Affordable Housing

by Eric Guetschoff

Those concerned with affordable housing in Chicago face a new century with a familiar set of challenges: rising property values in some neighborhoods, dilapidated buildings in others, and homelessness across the city. These human shelter issues arise from broader issues, including poverty and the political disenfranchisement of many poor and working people.

In the past, Chicago has addressed shelter problems with public housing and rental subsidies. In the private sector, community development corporations have also taken on the challenge to develop new affordable housing. Much of this housing has been rental housing.

In this context, housing cooperatives represent a compelling third solution, and one that may be just what Chicago needs to tackle its tough housing problems in the 21st century. Housing cooperatives ground the opportunities and responsibilities of ownership in the conviction that people are able to help themselves. History shows that the principles of community ownership, expansion, and democracy have made cooperatives dynamic tools for social change, and that applying these principles to housing can attack housing problems at their root.

A cooperative is essentially an economic organization that can be applied to virtually any need. Today, co-ops around the world provide things such as food, child care, books, financial services, health care, utilities, bicycles — as well as housing. Co-ops are organized as corporations. A board of directors, elected through a one-member, one-vote process, controls the affairs of the business. A significant distinction between cooperatives and other corporations is that the shareholders are not investors but the people most affected by the business: the workers, consumers, farmers, or residents who use the services or produce the goods.

"...an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise."

The modern cooperative movement has its origins in the Industrial Revolution of 19th century Europe. The working class movements of the period developed the cooperative model to establish humane alternatives to the harsh economic structures that were emerging. Today, cooperatives serve millions of people in virtually every country on the Earth, but the fact that cooperatives were first developed to operate within a capitalist system helps explain why this fragmented social and economic movement boasts proponents from across the political spectrum. While Southern Mexico's Zapatista indigenous movement sees cooperatives as effective tools for community and economic development that could consolidate and further its recent political gains, U.S. neo-conservatives, such as Bob Dole, Jack Kemp and Newt Gingrich, see cooperatives as tools that further the goals of democracy, self-help, and private ownership.

During the Reagan and Bush years, the self-help allure of housing cooperatives made them an attractive alternative for a federal government anxious to get out of the housing business. The LIPRHA and HOPE programs were written with provisions to allow tenants to form cooperatives to purchase the HUD mortgages on their buildings. These programs weren't necessarily backed up with the careful planning and financial support that would be necessary to make the cooperatives effective, but they represented Republican confidence that if you put people in a position to do for themselves, they can. Locally, the Illinois Housing Development Authority seems to agree with this philosophy, and several Chicago area housing co-ops have received funding there. By contrast, Chicago's Department of Housing has been reluctant to fund housing co-ops, suggesting the city doubts that shareholders will be able to take on the responsibilities of cooperative ownership, or that cooperatives represent "real" homeownership at all. Underfunded projects have resulted in bad deals and slow motion co-op conversions that can unfairly exacerbate such doubts.

There are essentially two different models of housing cooperatives in Chicago, market rate and limited equity. Market rate co-ops, such as the Drake Co-op next door to the Drake Hotel, sell the shares of the organization on the open market for whatever they will bring. Often, as property values rise, residents can make a pretty penny. Limited equity co-ops, such as the London Towne Houses Co-op in Pullman, sell shares

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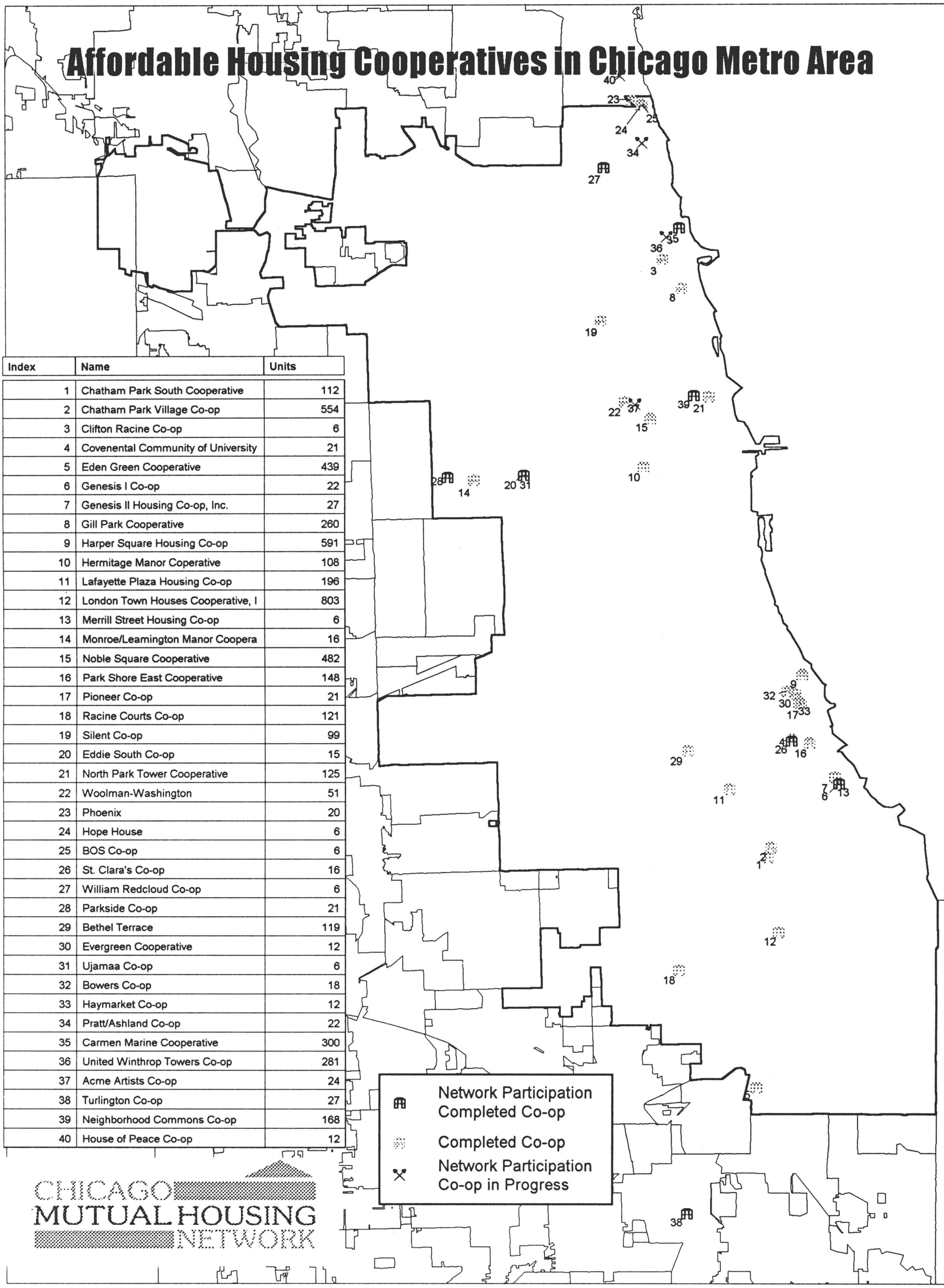
Affordable Housing Cooperatives in Chicago Metro Area



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on the market, but the sale price is limited to a set percentage increase — sometimes an inflationary increase, sometimes higher. The purpose of the latter model is to create permanently affordable housing. Both models offer their owners the control and stability of ownership. In addition, studies of New York co-ops have shown cooperative ownership often translates into real political power-bases.

This finding has been repeated informally in Chicago, as best illustrated by the surprise upset of the 8th Ward's machine candidate by Independent Willima Cousins a couple of decades ago. Cousins' margin of victory was about equal to the number of votes cast by members of the Chatham Park Village and London Towne Homes cooperatives -- both newly created at the time of the election.

"Social change works best if you give people the opportunity to control their lives at the smallest unit possible; and allow them to expand from there," suggests Rob Sadowsky, Executive Director of the Chicago Mutual Housing Network. Believing that growing housing problems made Chicago ripe for the social change offered by large-scale cooperative development, the Center for Neighborhood Technology and co-op members and advocates established the Chicago Mutual Housing Network in 1989.

The Network is a federation of mutual housing organizations and supportive community members. Its services include training for board members, organizing assistance, educational resources, and legal/financial direction. Explains Sadowsky, "The organization confronts urban decline by advocating home ownership alternatives for low and moderate income families, as well as generating management support and training ideas for established mutual housing organizations."

The Network's most recent program is the Tenant Ownership Project. In four communities — South Shore, Chatham, Humboldt Park, and Logan Square — the project has brought together community leaders from each neighborhood in a Community Planning Board that will create and implement a plan to develop 150 units of cooperative housing. While the development of new co-ops by community groups is not new, the Tenant Ownership Project's work to build community support by drawing neighbors and potential opposition into the planning process from the very beginning is a strategy that we expect will help forge strong leadership and long-term stability in the cooperatives.

The Chicago Mutual Housing Network's vision is a strong, vibrant, citywide cooperative movement united to provide educational resources to existing cooperatives and to develop new co-ops to create housing opportunities for all who reside in Chicago. The relevance of cooperatives to the city's housing problems and the needs of low- and moderate- income families is clear. The question is, how can proponents of affordable housing make effective use of the co-op model and the resources of the movement?

For more information, call Rob Sadowsky at (773) 278-4800 ext. 137, or visit http://www.cnt.org/~cmhn/.

Statement on Cooperative Identity

Definition: A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values: Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles: The cooperative principles are guidelines by which cooperatives put their values into practice.

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Cooperation among Cooperatives

Cooperatives serve their members most effecitvely and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

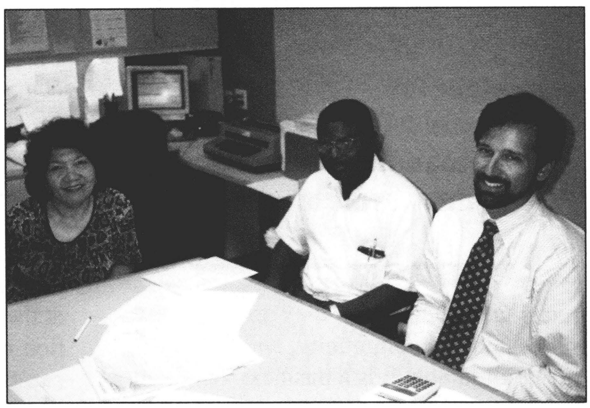
Source: International Cooperative Alliance 1995

Condo Living: An Affordable Ownership Opportunity

by Janice Finney

Janice Finney was the Director of Human Development for Uptown Habitat for Humanity for three and a half years, where she co-authored the study "The Viability of Low Income Condominiums." She is currently a Senior Planning Analyst at Chicago's Department of Housing.

"In offering condos for ownership, UHFH is able to provide more homes to more low income families at a more affordable price."



Left to right: New condo owners Yolanda and James Larmie at closing on 7/16/97 with their attorney, Steve Holler.

On July 16th, six families reached their dreams of becoming homeowners. Through Uptown Habitat for Humanity's (UHFH) home buying program, each purchased a condo at Cornerstone Condominium Association in Rogers Park. Sale prices range from $38,000 to $50,500 for these two and three bedroom, gut-rehab units. Since UHFH serves as the lender as well as the developer, these lucky homebuyers will pay no interest on their loans. UHFH also offers a unique lease-to-purchase program in which prospective buyers accrue a monthly credit that usually covers closing costs. The combined monthly mortgage payments and assessments for the condos are lower than many of the owners paid as renters: between $360 and $470 per month, not including heat.

In offering condos for ownership, UHFH is able to provide more homes to more low income families at a more affordable price. For families who are not financially ready to purchase single family homes, or who do not savor the idea of flying solo into ownership, condos represent a great homebuying alternative. As Dan Parades, one of the proud new homeowners, said: "It's a big blessing to have something. This is mine. I worked for it."

"For families who are not financially ready to purchase single family homes, or who do not savor the idea of flying solo into ownership, condos represent a great homebuying alternative."

A condominium is defined as real property in which the owner(s) has individual ownership of a unit as well as a percentage of ownership in the common areas of the property. Common areas include roofs, backyards, laundry facilities, exterior walls, meeting rooms, etc. Unit owners must abide by the Illinois Condominium Property Act, a statute created to govern the operation of all condominium associations in the state. This statute provides automatic membership into the condo association to all unit owners, obliges all owners to meet mutual responsibilities of their association, and requires all owners to pay mandatory assessments to cover the condo association's operational costs.

UHFH broke ground on their first affordable condo development in 1986, a 12 unit townhome development in Uptown. UHFH broke ground in other ways as well: the non-profit affiliate of Habitat for Humanity International was one of the first housing developers in Chicago to market the concept of low income condos. To date, UHFH has developed 57 affordable condominium units in four transitional Chicago neighborhoods. Twelve of these units are still under completion and an additional seven units are scheduled for gut rehab construction in West Humboldt Park as soon as funding is in place.

It is noteworthy that UHFH is developing low income condo associations as opposed to associations that set aside a few units for low income buyers. This distinction is important: market rate condo owners can afford to hire professionals for unforeseen snafus, but low income condo owners need to be more self-sufficient.

UHFH condo buyers are very vocal about the advantages of living in a condo community. Because UHFH targets low and very low income families, all qualified buyers have limited financial resources. Many are single-parent households. By design, condos provide an automatic community: residents have a vested interest in the well-being of the property and, consequently, one another.

In UHFH condo developments, families pitch in on the upkeep of the property and sometimes look after one another's children. Should the roof leak or the plumbing need repair, the expense is shared by the other unit owners through the association's budget, which is approved annually by the elected Board of Managers. UHFH, as the developer, gives added protection from unexpected expenses by aiming for quality construction in each of its developments. In gut rehab developments, UHFH replaces the electrical, plumbing and roofing. In its most recent condo developments, UHFH provides new appliances and has experimented with a limited warranty. This quality helps bolster the long term affordability of the units by protecting owners from the expense of repairs.

While a close look at mortgage payment records shows that families do fall behind, UHFH boasts a 0% foreclosure rate among its homebuyers, proving that low income condo development can be an effective approach to neighborhood investment, making good use of limited land and funds.

At the same time, UHFH has learned that developing affordable condo associations comes with its own set of challenges. With a grant from P.R.A.G. (Policy Research Action Group), UHFH undertook a study in 1995-96 to determine whether developing low income condos serves the needs and interests of UHFH families. A copy of this study, "The Viability of Low Income Condominiums," can be found at the Chicago Rehab Network. It elaborates some of the challenges unique to affordable condo developments. Clearly, many of these potential problems could be addressed in the planning stages.

Planning should begin with a thorough market analysis well in advance. In addition, since most low income buyers perceive condos as a form of ownership for the rich, clever marketing strategies are needed to dispel this perception and to sell the idea of condo living. To attract low income families to the market, developers need to keep the combined monthly mortgage and assessment very close to what low income families are paying in the neighborhood for rent. Families should understand what they are buying: a home, a community, and a business all in one. It is a business venture, too, because unit owners are financially responsible for the solvency of their condo association.

"...many aspects of creating low income condo associations may be more demanding for families than other forms of ownership."

As the developer, UHFH recognizes that many aspects of creating low income condo associations may be more demanding for families than other forms of ownership. For instance, cooperation among neighbors is crucial to the success of a condominium association - particularly in the maintenance of the property. Sound property management is viewed as a primary issue for lenders and housing experts alike. As Tommy Fitzgibbon, Vice President of Community Development at Avondale Federal Bank in Chicago, commented in the condo study, "lenders strongly take into consideration property management when making decisions on loans." He goes further and encourages developers to involve qualified property managers "from the inception of the project onward."

Unfortunately, hiring an outside property management firm is not cost-effective for smaller condo developments (under 20 units). To address this concern, UHFH provides property management services for reasonable fees, including bookkeeping and hiring of outside contractors for garbage pick-up, extermination, and annual inspections of HVAC systems among other services, while the condo owners themselves take responsibility for general maintenance to keep the monthly assessment low.

Here, the importance of cooperation becomes apparent: people have different standards of living. When garbage is left out and laundry facilities are not cleaned, conflicts arise. Yet homeowners recognize that if the property is not well maintained, more than likely its value will go down and they may have a difficult time selling their unit. As Lovie Twine, a prospective buyer at the Moss & Bell Condo Association in West Humboldt Park put it: "I can't afford to invest this much time and money if it's not going to pay off in the end."

Operating a condo association takes time. Many families do not have the extra time available to attend quarterly board meetings or to serve on committees. Once they close on their homes, many people are unwilling to spend time working on behalf of their condo association simply because juggling work responsibilities with the demands of raising a family leave little extra time to give. Prospective buyers should understand that a successful condo association demands the participation of unit owners, particularly in a small association.

Because of these challenges, homeowner workshops prior to purchase are very important when buying into a low income condo association. UHFH requires prospective buyers to attend 10 out of 12 monthly homeowner workshops

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LUCHA Fights
Homeowner's Insurance Discrimination

Suppose your neighborhood is beginning to turn around. It still has more than its fair share of abandoned buildings, but there are brand new townhomes going up just down the block. You decide you want to do your part, to spruce up your place too. So you go to the bank for a home improvement loan. But they turn you down because you don't have homeowner's insurance. So you go to the insurance company to apply for homeowner's insurance. But they turn you down too, because there is a vacant building next door to your house. It's not completely abandoned — the owners use it as a sign board because it can be seen from the expressway. They don't want to put anything inside it. They just want the structure. What can you do about that?

Maybe nothing, the insurance company admits, but the vacant building still poses a risk, and they're just not comfortable with it.

"There are abandoned buildings all over the neighborhood," protests Carlos Colon of LUCHA. "Do you think the people moving into those new townhomes are having trouble getting insurance?" LUCHA, which stands for Latin United Community Housing Association, is a community development corporation serving the Humboldt Park community. Carlos is the lead organizer in LUCHA's initiative to counter homeowner's insurance discrimination.

"There are abandoned buildings all over the neighborhood," protests Carlos Colon of LUCHA. "Do you think the people moving into those new townhomes are having trouble getting insurance?"

When the National Fair Housing Alliance tested for discrimination in the homeowner's insurance market across the country, they found that 95 percent of their Latino testers were discriminated against. Some of them were steered toward other companies; some of them were given quotes that weren't comparable to those given to their white peers. Homeowner's insurance discrimination takes various forms, and it has far reaching effects. In the case of the house next to the signboard, Carlos fears it could have eventually forced the owner to sell and to move on. But LUCHA helped the homeowner get coverage under the Fair Access Plan - a federal program to extend insurance to people the regular insurance market writes off.

Now, suppose your garage burns down. And your car, which you depend on to get to and from your job, was in the garage. It's not the end of the world - you've got homeowner's insurance. But after grumbling under their breath about arson, the people at your insurance company conclude that your car was not covered by your insurance policy. They will only cover a few smaller items that were in the garage with it.

That sort of thing happens a lot, particularly to Latino families who don't speak English well. "A lot of homeowners don't understand the coverage they are buying, and the insurance agent just fast talks them through it." LUCHA argues that when insurance companies refuse to provide information or policies in Spanish, they effectively set many Latino families up for discrimination. In the case of the garage with the car in it, the language barrier prevented the family from searching out a policy with adequate coverage. Other homeowners may find their insurance is canceled abruptly, for reasons that they do not understand, or that they are denied coverage in the first place. These obstacles threaten the stability of a family's investment: homeowners insurance not only protects the homeowner in the event of an emergency, but can be instrumental in an owner's ability to make necessary repairs and to hold on to property at all.

LUCHA has been working to break the understanding barrier between homeowners and their insurance for years, offering education and counseling as part of their community service mission. But

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lately they've been organizing a more systematic plan for educating the community about their insurance choices. The plan brings in a broader coalition of community organizations and churches. They are asking three major insurance companies - Allstate, State Farm and American - to sign a formal agreement with them. Under the agreement, the insurance companies would provide crucial information on their policies, as well as loss data and other factors used in decision making and price structure. They would also explain the specific reasons they reject individual applications in writing, and explain possible remedial measures. Such specific information about the challenges the insurer faces in serving specific areas and individuals would allow the coalition to develop strategies for targeting trouble areas, and for counseling individual applicants.

LUCHA's insurance initiative also calls on insurers to create a policy tailored to the Humboldt Park community. It would make application materials available in Spanish, and help train staff of LUCHA and other coalition members in risk reduction. The policy would then extend a discount to homeowners who have completed LUCHA's program, on the grounds that a more educated homeowner is less of an insurance risk.

Finally, the insurance companies would help pay for the staff who train the homeowners. "Their preference would be that we do this type of work for free," Carlos acknowledges. "Being a community service organization, LUCHA tends to do that. We've even conducted workshops for them." Meanwhile, the coalition continues to organize community support and plans to present their plan to the companies again. Carlos says the plan would be worth the investment. "It would save the insurance companies a lot of money in claims in the long run."

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before going to closing. At these sessions, families are introduced to the legalese in the condo documents and by-laws, and they learn how to hold the annual election of officers. UHFH workshops also give hands-on practice on basic home maintenance, such as unclogging a toilet, as well as tips on handling conflicts so neighbors can resolve differences on their own. Both IHDA and DOH allow homeowner training programs as a soft cost in the developer's construction budget.

"Part of UHFH's mission is 'to foster better communities in a challenging urban environment.' "

In addition, UHFH takes other steps to improve families' chances for success in their condos. There is a thorough selection process that includes a one-on-one financial counseling session to make sure families' debt-to-income ratios are manageable. Once a family qualifies for the homebuying program, there is a one year lease-to-purchase period to complete "sweat equity" (volunteer labor) and master basic construction skills on their homes. During the homeowner workshops, buyers begin to build relationships with their neighbors. The lease-to-purchase period allows ample time to get into the homeowner mindset and practice operating their condo association. This time period can be extended when problems arise.

UHFH also has in place a "Partnership Committee," and a "Home Ownership Committee," comprised of community volunteers to track families' progress and to make sure they have the support they need to succeed. Offered only when requested, this individualized support has made the difference between success and failure for several UHFH families. Although UHFH is not a "supportive housing program," a family facing a life crisis is linked with appropriate social services. In unusual circumstances, UHFH as the lender can defer the mortgage payment.

UHFH staff have also worked closely with pro-bono attorneys to amend the condo documents to improve families' chances for success. UHFH offers a one-year buy-back option from the date of closing that can be exercised by either the buyer or the developer under certain qualifying events. UHFH also has step-in rights as the lender should the condo association fail to operate according to the Illinois Condominium Property Act. Although some housing professionals might view these measures as paternalistic, prospective buyers appreciate the protection it offers them.

Part of UHFH's mission is "to foster better communities in a challenging urban environment." UHFH's experience in condo development has also entailed facing some of the larger issues faced by new homeowners.

UHFH's condo developments are in neighborhoods undergoing change. Yet some families are reluctant to buy in neighborhoods that are crime-infested and run down. They realize that as owners they will not be able to move easily should the neighborhood get worse. As renters, this is not an issue. Low income condo buyers must weigh the risks like any home buyer.

The decision is not an easy one. Families in two UHFH condo developments in West Humboldt Park continue to battle gang activity. Since moving in, cars have been broken into, new windows shot out with b-bs and bullets, one homeowner's son was shot on the front steps, several units have been burglarized, and this week, one prospective buyer was injured in a mugging on her way to the corner store. Although she is debating whether or not it makes sense to proceed to closing, Callie Cleveland harbors a desire to stay: "I love my place. I'd do anything in the world to keep it." Developing a comprehensive community plan in partnership with other organizations and residents in the community seems essential to fostering better communities where families thrive.

Ironically, once a neighborhood begins to improve, homeowners face higher property taxes and higher monthly payments as a result, making their homes no longer affordable. In fact, property taxes rose so dramatically in Uptown that condo owners at Kenmore-Habitat Condo Association were asked to put an additional $60 a month in escrow. Their outcry over the tax increase and frustration over the cumbersome appeals process, which have been summarized in a separate UHFH study, became a catalyst for the current property tax relief initiatives being coordinated by the Chicago Rehab Network. Finding ways to provide property tax relief to ensure neighborhood stability is another important issue for communities to address - and one that calls for the involvement of all concerned with sustaining affordable housing.

Are condos a viable, affordable homeownership alternative for low income families? More specifically, does it make sense for developers to promote condo associations comprised of low income buyers as UHFH does? Admittedly, UHFH's homebuyer program is special, and many developers do not have the luxury of providing services like 0% interest, mortgage deferment, and property management.

And yet, affordable housing developers should definitely give this form of community-minded ownership serious consideration. They should also understand that, in the words of Carol Garvin of Kenmore-Habitat Condo Association, successful condo development has to be a "two-way street" between the developer and the buyers. For developer, this means added costs to address buyer-needs that go well beyond acquisition and construction. Other developer considerations, including legal requirements, are discussed in more detail in the condo study.

With creative financing and government subsidies, it is possible to develop condos in Chicago neighborhoods that low income families can afford. In the fall of '95, DOH's "New Homes for Chicago" moneys were made available for newly constructed condos - allowing a discount of up to $15,000 per unit off the sales price. Developers and government agencies should be encouraged to make CDBG dollars available for rehabbed condos as well.

"...in the words of Carol Garvin of Kenmore-Habitat Condo Association, successful condo development has to be a 'two-way street' between the developer and the buyers."

Other condo specific programs and partnerships likewise need to be established. Lenders and developers should evaluate underwriting criteria to serve the low income condo buyer more effectively; developers and housing agencies should pool resources so condo owners have somewhere to turn for technical assistance and legal counsel; and a network for reliable property management services should be created. For many low income condo pioneers, buying a condo provides an opportunity to buy real property in Chicago. James Larmie, a Cornerstone Condo owner, exuberantly expressed his family's happiness after finally going to closing following a lengthy delay while UHFH finalized the financing and prospective unit owners worked out the kinks in their condo association:"It's worth it!"

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comprehensive approach to energy and resource efficient design, construction, and operation of housing, and (3) to help meet national environmental goals to decrease emissions of greenhouse gases.

The partnership will meet these goals by providing housing designs and specifications, offering financing and performance contracting guidance, giving training on the use of software simulation tools, assisting with monitoring and verification, and providing training to residents and agency staff.

The Department of Energy partnership program does not form exclusive relationships. Instead, developers and community groups are encouraged to take advantage of opportunities to capture additional benefits. For example, a number of communities made use of the Illinois Department of Commerce and Community Affairs' Energy Efficient Affordable Housing Program. This program provides non-profits with grants of up to $2,000 per unit if their housing (rehab or new) includes specified energy-efficient building measures.

Since the initiation of the Department of Energy's partnership program, over 30 partnerships have been formed in 11 cities. More activity has occurred in Chicago than in other parts of the nation - perhaps because the Department of Energy's concept of partnership among national labs working with community groups developed here first.

To learn more about the opportunities for making housing more affordable through energy efficiency and the Partnership for Affordable Housing, stop by the Affordable Energy Home Center at 230 N. Hamlin in West Garfield Park, or by call Trinette Britt at Bethel New Life, (773) 826-5540.

The Chicago Collaborative: Setting Standards for Homebuyer Education

Homebuyer education and counseling may be the single factor most likely to impact our ability to extend homeownership to non-traditional homebuyers, and yet the field remains an unregulated, sales driven enterprise.

As the lenders at our roundtable attest, the great difference between homebuyers the market has traditionally felt comfortable with, and the low and moderate income first time buyers that new homeownership initiatives are trying to reach, is not so much income as the ability to master credit: to understand how much their credit is costing them, and to learn to use it without spreading themselves too thin. Meanwhile, the new breed of homebuyer can make easy prey to sub-prime lenders and insurers, a group who have also seen opportunity in the national priority on homeownership.

While there are organizations that accredit homebuyer councilors, there is nothing requiring anyone to seek those councilors out. In a sense, the closest thing to regulation of homebuyer education might be Fannie Mae's requirement that certain loans be accompanied by certification that the buyer has completed a course of homebuyer training. But there are no standards as to what that course entails: some buyers have attended a 13 week course; some have merely answered a few questions over the phone. Meanwhile, those who extend sub-prime loans - to the very people whose credit issues cry out for counseling - face no requirements to include homebuyer education at all.

The need for standardization in homebuyer education is widely recognized. To address it, Fannie Mae has initiated the American Homeowner Education and Counseling Institute with 29 non profit and for profit partners. The Institute's goal is to establish national standards for homebuyer education and for counselor training. Fannie Mae alone has made a $2 million endowment to the project, but after doing so, Fannie Mae and the Institute have taken pains to decentralize the process and limit their role to that of facilitator.

Currently, the Institute is supporting local collaboratives in cities

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as it can be. And it's not just people saying 'We're willing to think about it.' You've got programs that are built in with some very relaxed parameters."

If anything, the group thought we might see things roll back a little bit, as default rates begin to mount.

Leony confesses she is sometimes a little alarmed by the flexibility she's seen herself. "I think it's because we all have very good intentions, and wanted to help out, but anytime you stretch a guideline, you open it up to abuse."

"What you have is back end ratio creep," Calvin says. Lenders have been more willing to accept applicants with higher credit ratios - their debt consuming a larger percent of their income and putting greater strain on their ability to keep up with their mortgage. "But there's talk from a higher level of the credit policy committee. They say 'Wait a minute. We have to stop at some point."

It takes a few years for loans made under relaxed guidelines to prove whether they will fail or flourish. But now, "there's finally a history you can look at." Carl says. "And we're seeing default rates rise."

No one wants to make bad loans that will just be a disservice to the borrowers and the community. "It's one thing to put a family in a home. It's another thing for them to maintain that," Leony says. "Educational assistance is key, prior to purchase and after the loan closes."

"What obstacles do first-time and low and moderate income families face?"

Keeping families in their houses, and keeping the bank's real estate holdings to a minimum, depends on understanding the challenges facing homebuyers. One of the main challenges to homebuyers of all categories is the national tendency to spread our resources too thin.

Kein Burton paints a picture the whole group can recognize. "You have a construction loan, and you counsel people. You tell them they are already marginal on this loan." Their credit ratios are high, and they may be complicated by other factors. "You tell them 'We still think we can make this loan. But one thing you cannot do" - and the whole group joins in — "is borrow any more money."

"And they nod, and they say, 'Oh no, this is all I want in my life.'"

But by the time the loan is moving toward closing, things have changed. "You see they've been spending some time buying furniture. And they've bought a new car. And it's a really nice one."

Kein describes it as a lack of sophistication. "I honestly don't think people understand the power of money."

The group agrees the phenomenon is not limited to low income buyers.

"It happens with the wealthy as well as the poor," Calvin stresses. "And what they will say is 'But I've made payments like this before.' Because there are a lot of people who are just accustomed to stretching themselves very thin."

It's the American Dream in action, as Leony describes it — "People want to belong; people want to be a part of the mainstream" — and it extends beyond housing. "We all make it easy for you to buy a car, no down payment."

"No sacrifice," Calvin says.

The problem cuts across class boundaries, but it is a bigger problem for families whose claim to the middle class is less entrenched. "In many cases, you're looking at the first generation of real professionals," Kein says. "They really do have a nice income. And they compare themselves up against their majority counterparts." The majority counterparts have a lot of nice things; they also have the security of second and third generation wealth. "They have a safety net. Their parents have money. Their grandparents have money."

The lack of a safety net poses an even greater threat to the mortgage of low and moderate income buyers. "We're talking about people who are marginal anyway," even without high credit ratios. "They're in marginal jobs, in marginal wages. One thing goes wrong - their car breaks down, they can't get to work. They are the most likely people to just lose their job because their child gets sick. You have whole layers of circumstances that surround low and moderate income people. It's a domino effect."

Kein sees these issues as broader socio-economic problems that banks are called to answer for. "It's a cliche, but our economy is a service motivated economy, and I see people with very, very low wages, with very little ability to amass any type of wealth. They don't have pensions, they don't have 401K plans. A lot of the discussion centers around what bankers can do, but there are some issues here that banking has nothing to do with. We as lenders cannot change the way our society does not pay a living wage."

"What do you think ought to be done to address these obstacles?"

The challenges seem to be pretty clear. "Credit and jobs," as Kein says. How then are we to address them? The group varied on specifics, but everyone agreed each application must be carefully evaluated on an individual basis.

Should families whose low wages make it impossible for them to amass wealth be given down payment assistance?

Estella says yes. "You see a long history of an individual, living in an apartment, paying $800 a month in rent, and for a dump, mind you. And they're paying the rent on time every month.

Calvin is not so sure. "I don't mind closing cost assistance. But I've seen people who could not come up with $1000 down. If you can't save for that, what makes you feel secure that you're going to be able to pay your mortgage if your mortgage is like six or seven hundred dollars a month?"

Kein says "I agree with both of you. I think there are also circumstances where people should not be in a homeownership situation. I've also seen couples who are in their forties who are doing quite well who don't overuse credit, but they don't ever get there. And they're paying a lot of money in rent. I think those people could use downpayment assistance."

"It's very hard for people to say 'I'm absolutely against this,' or 'I'm absolutely for this.' Everyone's circumstances are different."

Is credit scoring going to change the way banks make loans? Emerging quickly over the past 6 months, credit scoring promises to give lenders a standardized assessment of an applicant's credit situation. Today, a handful of companies calculate the credit score of an applicant to help the lender evaluate his or her application. But how do you use it?

"Some shops rely solely on the credit score. Even the credit scoring people tell you it should not be the sole determining factor," says Carl.

Leony says "But it will be hard to overlook when someone comes in with really low scores. It's important that the decision is based on the totality of the loan file."

Carl says "But that's the point. What's a low score?" The group could not agree.

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The Federal Reserve and the Mortgage Credit Access Partnership

In 1996, the Chicago Fed initiated a partnership with representatives from more than 100 organizations from small nonprofit agencies to large lending institutions to identify practices that might foster disparate treatment or outcomes in the home-buying process. For the past year, this Mortgage Credit Access Partnership (MCAP) has worked to identify, prioritize and recommend solutions to address unfair housing and lending practices.

The group identified four key areas to examine: the home appraisal process, credit rating, professional and consumer education, and Federal Housing Administration (FHA) issues. Four task forces were established to delve into these areas further. On May 29, the partners assembled at the Union League Club of Chicago to discuss the draft recommendations developed by the task forces. "Some of the individual ideas may challenge current thinking on how to do business," commented Chicago Fed President Michael Moskow at the presentation. "Some of the recommendations could result in new challenges and potentially some costs. However, these costs should be balanced by the cost of leaving some residents without a full opportunity to build wealth through home ownership."

Chicago Fed Analyst Mike Berry has coordinated the MCAP initiative with the help of his colleagues in Consumer and Community Affairs (CCA). "Disparities in the home-buying process take myriad forms," says Berry. "It can be unfair loan pricing, steering minorities to specific neighborhoods or policies that unwittingly favor majority buyers. Our goal was to identify and understand the key issues and make informed recommendations to address them."

The Appraisal Process Task Group suggested that all real estate appraisers be licensed and certified. This would serve as a means to ensure that appraisers have undergone fair housing and fair lending training, and as a way to censure appraisers who use unfair practices. At the same time, the Professional and Consumer Education Task Group's recommendations called for the

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across the country. These local collaboratives will generate their own standards and recommendations. The National Institute will draw on their conclusions to assemble nation-wide guidelines. In Chicago, this initiative has brought homebuyer counselors and trainers together with lenders - including both prime market lenders and private mortgage companies - community organizations, the Department of Housing and IHDA. They have been meeting since March as the Greater Chicago Homeowner Education and Counseling Collaborative.

The Chicago Collaborative's Standards Committee has already assembled a standard curriculum. 'That was the easy part," explains Greg Smith, who is CRN's homebuyer counselor and who co-chairs the Greater Chicago Collaborative with Citibank's George Wright, "because homebuyer education is what we all do." In upcoming months other committees will take on other tasks.

For instance, the Cost Benefits Analysis Committee will work on strategies to measure the impact of education and counseling. "We assume there is a connection between education and long term success of the mortgage, but we don't know," Greg explains. To some extent, the committee recognizes the connection cannot be measured perfectly. Most defaults are the result of a life change - a death in the family, the loss of a job. No one can anticipate that. On the other hand, the committee does expect to establish that education results in a reduction in rates of denied applications, since the education process helps educators ensure that an applicant's affairs are in order before the application goes in.

The Fundraising Committee is raising money to support the collaborative, and, more importantly, to investigate means to fund homebuyer counseling in general. Currently, homebuyer education is sales driven: lenders are motivated to pay for it to the extent that the secondary market requires it be a part of the mortgages they buy, or to the extent that it helps them close more loans. Any aspect of homebuyer education that does not directly impact a lender's ability to close a loan, or to turn around and sell it to Fannie Mae, is difficult to pay for.
For instance, many lenders acknowledge

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"I think the jury is still out on credit scoring," Calvin says. He and Carl sat on a task force held by the Federal Reserve where credit scoring was discussed. "Our biggest argument is 'How can we use credit scoring when we know there are issues with how the credit score is derived, and what goes into it?'"

"What do you think about community development corporation homeownership programs?"

The one thing everyone agrees all first-time and low to moderate income homebuyers need is thorough homebuyer education.

"Counseling programs," says Leony, "That's another thing that we need to talk about. What counseling programs?"

Homebuyer counseling needs to be more thorough. "There's just a wide range of counseling out there." Carl calls it the good, the bad, and the non-existent. "Sign a certificate and they've completed the course. That's non-existent."

When counselors don't do their job, the loan officer can find herself doing catch up counseling to make a loan work, the group explains. "Loan officers are sales people. They're commission people. They're not counselors."

Homebuyer education needs to begin earlier in the process. "You get first time homebuyer programs where it's getting close to closing, and it's 'Oh! You need a certificate,'" Carl says. "The ideal counseling for a first time homebuyer begins before they even look for a property: what to look for in a home, what to expect in the real estate contract, home inspections..."

And maybe it ought to begin even sooner than that. "We send out credit card applications to new college students," Carl points out. They can start ruining their credit before they even understand what it is. "I think a good start would be to have classes in money and finance in high school."

"Whose job is that?" asks Kein.

"I guess that's part of CRA," says Leony. First National's Community Outreach and Education Division visits grammar schools. Other banks open branches in high schools.

Post-purchase counseling is also essential. Calvin can only think of a couple of community organizations that do it effectively. Those groups recognize that their ability to get more people into homes depends on the success of the mortgages they have already brought to the lender. "So they're staying on Mr. and Mrs. Doe to keep the payments up. If a 30 day late flag goes up, they go in and say 'Look, above all else, pay the mortgage.'"

Other community developers are exploring more affordable home ownership options.

"There's nothing wrong with co-ops and condominiums," says Calvin.

They can be more affordable than detached housing. "You put a family in a four bedroom, extremely spacious condo," says Kein "at $40 to 45,000, and they own it. I'd love to see more of that kind of thing going on."

And condos can be made more affordable without compromising construction quality. "There's a lot of cheap stuff that goes into a detached house that's going to top out at $80,000," Kein adds. "I really worry about the quality."

"Co-ops and condominiums were designed as transitions," Calvin says. They can help a family learn what goes into owning a house before they find themselves alone in one. "There are some people who still need to be able to call Mr. Smith and say 'My sink leaks. Can you come fix this?'"

Meanwhile, lenders continue to feel pressure to lend more money in disinvested communities. "There will always be a strong commitment to increase lending in low/mod areas," Leony says. "Statistics show that these areas continue to be underserved." While a crop of affordable loans have sprung up in the past year or so, Leony believes lenders must strive for balance as they develop mortgage programs with flexible underwriting, high ratios and low downpayments. "We don't want it to become a disservice to communities that we are trying to revitalize."

To some extent, lenders have responded by finding new ways to meet old goals. Kein says "CRA has become easier to pass then ever before." Lenders have been making more loans in disinvested areas, but a lot of them are going to upper income people moving back in. "That's what CRA has become," Kein says. Lenders can circumvent requirements to make loans to low and moderate income individuals by refinancing homes of people who have lived there for a long time. The property value has gone up, but the family is still low to moderate income. "There are a lot of tricks to passing a CRA exam these days."

These new loans highlight new challenges.

"Now you have communities going through gentrification," Calvin says. "As lenders, we have not really been forced to take sides on this issue."

"You need an injection of funding and new money into the community to revitalize it." Leony says.

"This whole idea is supposed to be about healthy and vibrant communities," Kein says "On the one hand, we don't want to be advocates of displacement. On the other hand, long term, viable community development cannot rest solely on low and moderate income individuals."

"I would say that's one of the biggest shifts that we've seen, and that's going to be the next argument," Calvin says. As redevelopment brings people back, people who have been living there for years are going to begin to ask new questions. " 'Gee, I was shut out,' now you guys are falling all over yourselves to lend money."

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the importance of post purchase counseling. Post purchase counseling can prevent a new homebuyer from being overwhelmed by repair bills by teaching basic maintenance and home repair; it can prevent a missed mortgage payment from spiraling into foreclosure; it can even help prevent a homebuyer faced with a foreclosure notice from simply abandoning the property. Lenders recognize these functions, but that does not mean they will pay for it.

The lender driven system can also encourage creaming: the skimming of the best candidates, many of whom could have qualified for loans without assistance, as the education provider concentrates on bringing loans to close with a minimum of work. "Lenders will offer to pay for homebuyer education, but it will come to about $200 for a closed loan," explains Greg, who is also CRN's Homebuyer Counselor. "That doesn't even begin to cover the investment." The real work of reaching a larger segment of Americans and preparing them to be homebuyers is long term work. Many of the candidates, if we are talking about candidates who would not be homeowners otherwise, will start out far from the goal, just trying to get a handle on their credit, and they may never be quite ready to be a homebuyer. Traditionally, these candidates have been left to community organizations who see their work as a long term investment in the community, not as a means to meet loan quotas. Community organizations are more willing to take on the kind of homebuyer education that begins with someone whose credit is in outer space, because they will improve the situation of that member of the community, even if they don't ultimately close a loan.

The standardization of homebuyer counseling is an overdue effort. At the same time, it is important to ensure that the professionalization of the homebuyer education industry does not mean that it becomes the province of bank trained professionals, who cream the best clients with an eye toward payoff on their investment. We must maintain the community development vision of education as a long term investment in the community.

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licensing and certification of industry professionals and the introduction of fair lending and fair housing language into training curriculums. It also plans to publish a consumer guide to fair housing and lending laws.

The Credit Rating Task Group called for more efficient resolution of credit report disputes between creditors and borrowers. "When first-time, low-income borrowers or those with a language barrier apply for a mortgage and there's inaccurate information on their credit report, they often become frustrated and drop out of the application process, because it typically takes 30 days to resolve a credit report error,"explains Berry. "The group found that some firms consistently report out-of-date information." The credit group recommended better monitoring of credit reporting firms and the use of a universally accepted credit dispute form that would accelerate the dispute process.

The FHA Issues Task Group focused on quality control in loan origination and servicing. Its main concern was to address the high concentration of foreclosures in specific communities by establishing "place-based" strategies that target neighborhoods with high turnover and vacancy rates. The group also called for standardized, accredited counseling of first-time home buyers.

The final recommendations are scheduled to come out in September. "A lot of people have devoted time to this initiative," comments Berry. "Alicia Williams, our vice president, was part of a group of System Community Affairs officers that developed an initial framework for the process. She serves on the steering committee, as does [Senior Vice President] Nancy Goodman, and attends all of the FHA task group meetings. John Fazio joined CCA last year and has been instrumental to the program's success. We've been able to develop some invaluable relationships across many industries."

"We're in a position to implement some real change," said Moskow. "As much as we can, we want to ensure fair and consistent treatment for all home buyers, regardless of where they choose to live, or their race, ethnicity or gender."

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Chicago Partners in the American Dream

Representatives of over 50 organizations affiliated with affordable housing in the Chicagoland area have been meeting regularly for the past 18 months. They include community organizations, lenders, government agencies and representatives from the corporate sector. Calling themselves the Chicago Partners in the American Dream of Homeownership, they have committed to implementing the National Homeownership Strategy in Chicago. They plan to use their unprecedented partnership in order to develop 5,000 new homeownership opportunities in low and moderate income communities by the end of the year 2000 - and to focus this development on 9 to 12 areas to increase the impact of their efforts. They believe that focused development plans built on a set of common principles, and implemented by coordinated effort from all sectors of the housing industry will multiply everyone's impact. Will it work?

It won't fail for lack of powerful partners. The Chicago Partners has its roots in a national initiative. When President Clinton made a call for increased levels of homeownership, then HUD Secretary Henry Cisneros responded by bringing together leaders of the national housing industry to assemble their best ideas. By December of 1994, the National Partners in Homeownership was an unprecedented cooperative effort between all sectors of the housing industry. It had created a 100-point National Homeownership Strategy, and was proposing that their strategy be implemented to generate up to 8 million additional homeowners by the end of the year 2000.

The National Partners urged their peers in cities across the country to form local collaboratives. The Chicago Partners in the American Dream began meeting in early 1996. They narrowed the 100 point National Strategy to five standing committees and seven best practice principles for effective focused development. The committees address Finance, Homeownership Education and Counseling, Production, Building Communities and Opening Markets, and Raising Awareness. The best practices are calculated to create a critical mass of residentially anchored new development to catalyze broader economic activity for increased sustainability and to leverage more extensive growth. These include:

Community Commitment: Stable neighborhood growth depends on the buy-in of the community's stakeholders. Any plan for the revitalization of an area must include the input and active participation of all such people and organizations.

Limited Size: Focused development [honing in on a 2 - 8 block area] can transform the character of the area by infilling all of the abandoned properties and improving most of the deteriorated housing stock.

Defensible Space: Design can bring safety. The site plan and housing design must incorporate safety-enhancing concepts, such as appropriate fencing, lighting, window treatments, and control of public places. The area-wide plan should include pedestrian friendly measures, like clear lines of sight and safe sidewalks and paths, and measures to reduce the flow of undesired traffic, like cul de sacs, one-way streets, calming circles and alley closings.

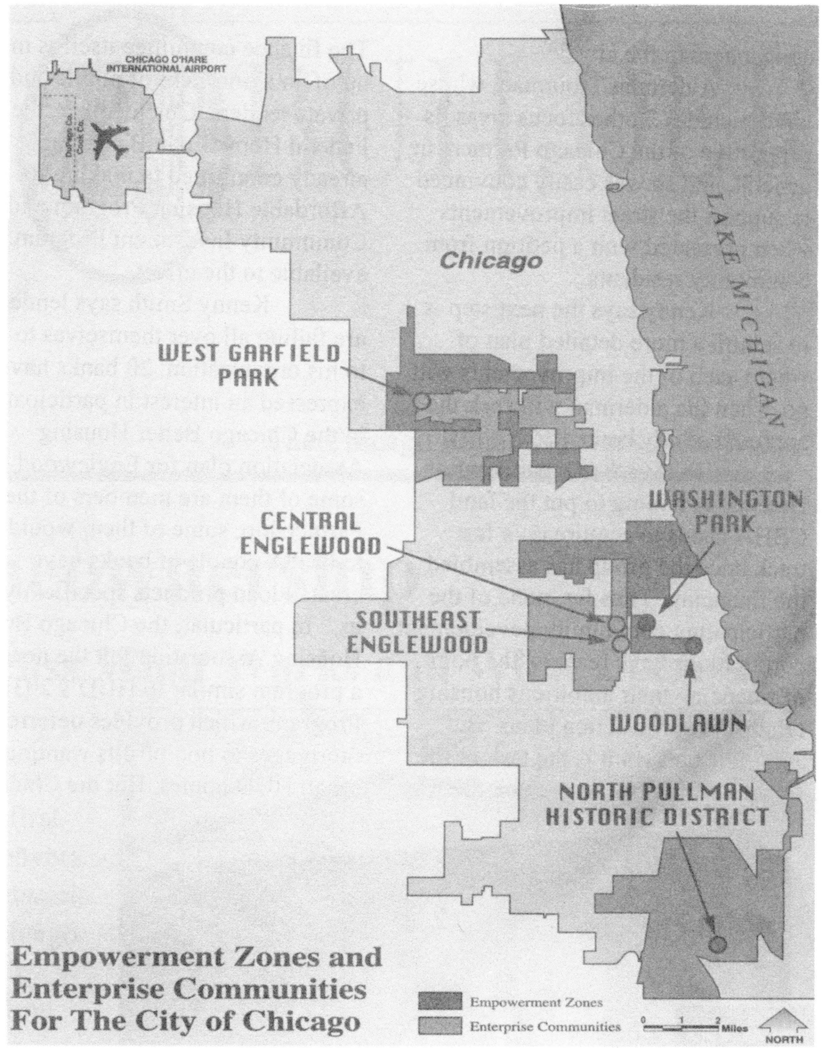
Community Reconstruction: Adequate public transportation and short walking distances to amenities like food stores, health care services, schools, and parks can help reconstruct the community.

Economic Diversity Planning: Housing priced for families with a diverse range of incomes will vary by type - from single-family detached, to triplex, to townhouse - and by form of ownership - from single-family mortgage, to condo, to cooperative.

Good Neighbor Program: Community planning sessions can be used as a point of departure, but specific plans must be made to draw new residents into the community life of their neighborhood, to develop leadership and community participation.

Use of Existing Programs: Working in or next to areas that have already been designated for redevelopment - as Empowerment Zones, Enterprise Communities, Redevelopment Areas, TIF Districts, or target area for HUD, the State of Illinois, Cook County, or the City of Chicago - allows the project to leverage benefits from prior planning and special access to public and private resources.

Recognizing that the unique ability of community development corporations to balance development with the long term interests of a community's stakeholders make them ideal mechanisms for implementing Focused Area Development, the



Empowerment Zones and Enterprise Communities For The City of Chicago

Chicago Partners identified a number of community development corporations to initiate the Focused Area Development strategy in their respective communities. They included Historic North Pullman, Woodlawn East Community and Neighbors, Greater Washington Park CDC, Chicago Better Housing Association, and Bethel New Life, Inc.

Today, the most tangible accomplishment of the partners has been the completion of comprehensive focused area plans for each of the five remaining focus areas. These were assembled with the technical assistance of Farr & Associates, Bethel New Life, Inc and the Chicago Rehab Network. The plans address the housing and infrastructure development of each focus area, with attention to the 7 principles, and call on city departments and lenders to help make them real. How is it working out?

We asked Kenny Smith of the Chicago Better Housing Association in Englewood to speak as an example. He says the Chicago Partners has had a big impact on of the Chicago Better Housing Association. "We've gained expertise, an understanding of how the system works, of how to work competitively..." The experience of participating in the Chicago Partners has proved to be an educational experience for several younger organizations, with little or no first hand experience of the intricacies of development.

Still, the Chicago Partners expect to have a more direct impact than that. The focused area plans make specific requests for infrastructure improvements and other tangible assistance from government and private partners. To make this more likely, the plans also build on existing redevelopment areas, such as TIF districts and empowerment zones, and they remind the reader that "the Chicago Partners model follows a trend among housing agencies to fund projects which are part of a comprehensive plan rather than stand alone ventures."

Meanwhile, the 5 standing committees are busy drumming up commitments to implement the plans. CRN's Judy Beison says meetings with several city departments have gained the general support of the department of Parks and the CTA, while the Department of Housing has agreed to set aside city owned vacant land in the focus areas until the community groups are ready to finance development on them.

Kenny Smith describes the process as it begins to get off the ground in Englewood: the CTA has given the Chicago Better Housing Association the right of way to transform land under its tracks - a neglected space known to attract crime - to conduct a horticulture program for students from Englewood High School. The Chicago Park District has agreed to create a tot lot on a site identified in the focused area plan, and their commitment motivated neighbors to act when someone wanted to open a flophouse across the street. They circulated a petition and convinced the alderman that a flophouse would not make a good neighbor to the playground. The flophouse project was shelved.

In furtherance of the principle of defensible space, the Englewood plan calls for limiting the ports of entry to the community to the expressway entrances at 59th and 63rd streets. "The ambulances and fire engines always come down these." Other streets will be turned into cul de sacs, and traffic will be slowed down with stop signs and speed bumps, "to create a suburban atmosphere in the city."

Alderman Troutman, whose ward includes 2 other focus areas, is supportive of the Chicago Partners in general, and so was easily convinced to support the street improvements when presented with a petition from community residents.

Kenny says the next step is to submit a more detailed plan of where each of the improvements will go. Then the alderman will seek the approval of city council.

He says the Department of Housing is willing to put the land CBHA needs to acquire on a fast track once the group has assembled the financing. Thus far, none of the participating community development corporations have reached the point of financing their ambitious housing rehab and construction plans. But Judy Beison says it is the task of the finance committee to prepare the way. The finance committee itself is made up of an assortment of public and private lenders. One member, the Federal Home Loan Bank, has already committed to making its Affordable Housing Program and Community Investment Program available to the effort.

Kenny Smith says lenders are falling all over themselves to lend to his organization. 20 banks have expressed an interest in participating in the Chicago Better Housing Association plan for Englewood - some of them are members of the Partnership, some of them would like to be. "A couple of banks have created loan products specifically for us." In particular, the Chicago Better Housing Association felt the need for a program similar to HUD's 203K Program, which provides deferred mortgages to non profits wanting to rehab HUD homes. But the Chicago Better Housing Association needed a program that would be available for homes that were not HUD homes. First Bank agreed to create a similar program with a mortgage that could be deferred for 90 days. Kenny says this will allow enough time for the CDC to be ready to sell the home.

The Chicago Partners are just beginning to see the first fruits of their carefully laid plans. As their efforts gain momentum, they are confident they will see greater transformations. Meanwhile, HUD continues to use the Chicago Partners as a model as it introduces the National Partnership to other cities. If you are interested in learning more about the Chicago Partners or becoming a Chicago Partners' Focused Area Developer, please contact Ms. Judith Beison at the Chicago Rehab Network (312) 663-3936.

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