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Community Dividend

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ILLUSTRATION BY MICHAEL JACOBSEN

Key housing organizations take coordinated approach to preserving rural Minnesota's affordable rentals

By Jacob Wascalus

The first time Skip Duchesneau got a phone call from the owner of the Prairie Rose Apartments, in 2008, he declined the man's offer to sell him the 16-unit complex in Red Lake Falls, Minn. Duchesneau, the president of property development and management firm D.W. Jones, Inc., had visited the property before and concluded that improving its poor physical condition was more than he wanted to take on: the roof needed repairing, the soffits and fascia were worn, even the light switches and electrical plug plates needed replacing.

"We would have had to gut it," he says. "Everything except the sheetrock would have needed to be changed out."

The following year, when the owner again called and offered to sell him the property, Duchesneau's answer hadn't changed. But in 2010, when he received a similar pitch from an employee at the Greater Minnesota Housing Fund (GMHF), a nonprofit organization focused on affordable housing in rural Minnesota, he reconsidered.

The employee highlighted a few aspects about this potential acquisition that made it more palatable: the prospect that Duchesneau could receive federal tax credits; the possibility that, with enough physical upgrading, the development could maintain the rental support that it had been receiving from the U.S. Department of Housing and Urban Development (HUD); and the ability to re-amortize the property's existing United States Department of Agriculture (USDA) mortgage under favorable terms. While Duchesneau recognized that all those options would add complexity to the purchase, he wasn't unaccustomed to projects that required layers of financing to fall into place; after all, in partnership with his wife Lori, who is president of sister company D.W. Jones Management, Inc., he already owned and operated 30 multifamily developments (and managed 90 more) in northern Minnesota, and some of those projects had come together with complicated financing. In the end, Duchesneau decided that the development merited his company's involvement and moved forward with a purchase agreement. In 2012, after securing the appropriate financing package, he reopened the fully rehabbed Prairie Rose—new roof, light switches, and all.

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Preserving rural affordable housing

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For Stephanie Vergin, the employee at GMHF who made the phone call to Duchesneau, the sale was a great outcome. She participates in a collaborative effort organized by the Greater Minnesota Interagency Stabilization Group (ISG), which monitors some of the roughly 110,000 units of subsidized affordable housing in Minnesota[1] and, if there's a risk that the units will lose their subsidies and convert to market rate, pursues opportunities to keep the units affordable. A fellow Greater Minnesota ISG member who works at HUD had informed her that, due to multiple health and safety inspection failures, the Prairie Rose development was at risk of losing support from HUD's Section 8 rental assistance program, which provides housing subsidies so low-income tenants can cover the cost of market-based rents. Without the collaborative efforts of Vergin (who now works for the USDA) and the other members of the Greater Minnesota ISG, the development would have likely lost its Section 8 support and the state's inventory of affordable units would have decreased by 16.

According to Robyn Bipes, chair of the Greater Minnesota ISG and director of programs and lending at GMHF, the Prairie Rose is just one of a growing number of properties that are at risk of dropping off Minnesota's affordable housing rolls. Some of them will definitely convert to market rate, but not all—not if she and her Greater Minnesota ISG colleagues can help it.

"We're talking about many, many hundreds of affordable housing units that may be lost," she says, "but we are trying to do what we can to save as many as possible."

A matter of maturing mortgages

A significant source of affordable rural housing in Minnesota is the state's large inventory of rental dwellings funded through USDA Rural Development (USDA RD) Section 515, a program that supports affordable multifamily rental housing in rural areas. As of 2015, of the roughly 46,000 subsidized affordable housing units in rural Minnesota,[2] approximately 10,600, or 23 percent, are financed with a Section 515 mortgage.

The Section 515 program, which was established with the passage of the Federal Housing Act of 1949, provides an interest credit that reduces the cost of the mortgage payments on the development, which thus reduces the rents a property owner needs to charge to pay back his or her loan. The USDA RD Section 521 program was established to work in conjunction with Section 515 and provides direct rental assistance to tenants residing in some of the units within a property. The rental assistance (which is distinct from HUD's Section 8 program) allows owners to charge tenants the equivalent of 30 percent of their adjusted annual income, and the program pays the property owner the difference between that amount and the USDA RD-approved rents for the property. As soon as a Section 515 mortgage matures and the property's owner makes the final loan payment, however, the rental subsidy is cancelled and the owner may elect to increase the rent charged. Of the 10,600 Section 515 units in Minnesota, about 6,700 receive rental assistance; approximately 750 of those units (including 432 with rental assistance) are in properties that are set to mature by the end of 2018.

Under Section 515, the USDA is authorized to make direct mortgage loans to parties interested in building affordable multifamily rental housing for low-income families, elderly persons, and persons with disabilities.[3] A general geographic condition of the loan is that the developments must be located outside of major metropolitan areas—specifically, in rural areas and towns with 20,000 or fewer people or on federally recognized tribal lands. The loans available through the program can be made for up to 30 years at an effective 1 percent interest rate, amortized over 50 years, and have a balloon payment due at the end of the loan term.

Nationally, the first loan made through the program was for the construction of a 26-unit rental development in Grove City, Minn., in 1964. Since then, the Section 515 program has financed approximately 14,000 properties throughout the country, for a total of more than 550,000 affordable rental units, of which 421,000 currently remain in the program. Of these, approximately 62 percent receive rental assistance.[4]

According to Bryan Hooper, the deputy administrator for Multifamily Housing in the USDA's Rural Housing Service, the Section 515 mortgages on roughly 80 percent of this national housing portfolio (or about 11,500 of 14,000 properties) will mature over the next ten years, which will have direct consequences for the low-income tenants who reside in the mortgaged properties. (See the graphs on page 3 for a breakdown of maturing mortgages in the Ninth Federal Reserve District.)

"This is a key issue because the residents will lose the rental assistance that is currently provided to them," says Hooper, noting that, on average, the adjusted income of the tenants in subsidized units is about $12,000 a year. "They will face significant rent increases, and they are not people who can afford an extra $200 or $300 a month."

Collaboration among colleagues

The Greater Minnesota ISG is made up of personnel from government and nonprofit affordable housing entities, including GMHF, USDA RD, HUD, the Minnesota Department of Employment and Economic Development, Federal Home Loan Bank of Des Moines, Duluth LISC, Minnesota Housing, and the Minnesota Chapter of the National Association of Housing and Redevelopment Officials. The idea of creating an interagency group took root in 1993, when funders of affordable housing in the state recognized a need to work proactively on preservation efforts because, among other reasons, Minnesota's subsidized housing stock was beginning to show age. The group originally focused on housing in the Twin Cities area; a spinoff group—the Greater Minnesota ISG—was created in 1998 to focus on other communities throughout the state. The Greater Minnesota ISG meets every other month to discuss the inventory of government-subsidized rural affordable housing in Minnesota and identify properties that are collectively perceived to be important to preserve or stabilize.

USDA tools to preserve affordable rental properties

According to Bryan Hooper, the deputy administrator for Multifamily Housing in the USDA's Rural Housing Service, the USDA is testing a handful of solutions to either keep properties with maturing mortgages in the Section 515 program or maintain a rental subsidy benefit for low-income tenants.

"We want to see if these tools are effective and if people will use them," says Hooper, noting that USDA RD hopes to have a determination on the efficacy of the interventions by the end of 2016. Specifics:

- The USDA allows owners of properties whose mortgages mature through the end of 2018 to apply to defer their existing debt for up to 20 years. This enables those properties that receive rental assistance to maintain that subsidy for up to two more decades. And under the USDA's Preservation and Revitalization program, which provides loans for owners to make property renovations, increased weight is given to applications from property owners whose Section 515 mortgages are set to mature by the end of 2018.
- Currently, low-income tenants of a Section 515 property that is foreclosed on by the USDA or whose owner pays off his or her mortgage early—thus ending the rental assistance subsidy—receive a portable housing voucher to maintain their subsidized rental benefit. In its fiscal year 2016 proposed budget, the USDA has requested an extension of the voucher program to allow tenants in all properties with a mortgage that matures naturally to be eligible to receive vouchers.

COMMUNITY DEVELOPMENT STAFF

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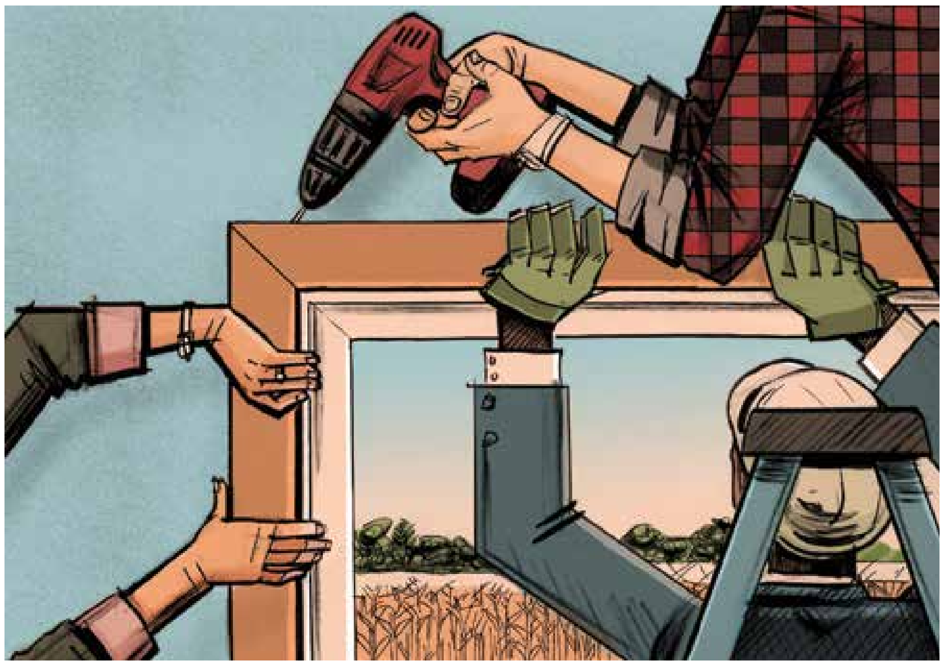

ILLUSTRATION BY MICHAEL JACOBSEN

"We then strategize about what can be done about them," explains Bipes, noting that the Greater Minnesota ISG, as an entity, does not fund housing projects. "What resources could be tapped? What programs could we look to? What is the best course of action to help keep these units affordable and available?"

Greater Minnesota ISG members learn about specific properties in need of stabilization or preservation in one of two ways: from an owner or from a funder. For example, an owner might approach a funder, such as the USDA, and explain that his or her Section 515-funded property is in need of renovation. On the other hand, a funder can inform his or her Greater Minnesota ISG colleagues of a housing complex that receives Section 8 assistance from HUD but has failed a number of annual health and safety inspections and is therefore in jeopardy of losing its federal subsidy. That was the case when the Greater Minnesota ISG member from HUD notified Vergin about Prairie Rose.

In both cases, says Bipes, if Greater Minnesota ISG members agree that the projects are good candidates for preserving or stabilizing—for instance, if they are in a strong market with relatively high rents but receive rental assistance to help offset the amount a low-income tenant must pay—they will advise the current owner or a new buyer regarding the best way to apply for funding. The owner or buyer then takes it from there.

"In some respects it's like we're playing matchmaker, telling owners about possible funding opportunities or actually finding a new owner for a property whose current owner wants to sell," she says. "Ultimately, it's up to the owners or potential buyers to decide if the programs and financing opportunities we've referred them to are strong enough to move forward on."

Rick Goodemann, chief executive officer of affordable housing developer Southwest Minnesota Housing Partnership (SWMHP), says that his organization is frequently approached about acquiring a property—sometimes by the Greater Minnesota ISG but often by owners who want to sell their affordable housing development. When SWMHP ultimately decides to move forward with a purchase, it meets with a Greater Minnesota ISG member to figure out how to proceed in securing the appropriate financing package.

"We consult with the ISG to help us figure out the best way to move forward," he says.

The way forward often leads to Minnesota's annual funding cycle for affordable multifamily housing, wherein housing developers might submit applications to multiple funders. In 1994, several members of the Greater Minnesota ISG agreed to create a common request for proposals for developers to respond to when applying for tax credits and other forms of funding. Called the "Consolidated RFP," the shared application guidelines not only save owners and developers from having to fill out multiple, different proposals for each of the funding agencies but also force the funders themselves to coordinate their own funding objectives and synchronize their priorities.

"And then after receiving the proposals, those agencies evaluate to decide how to fund the different projects that meet their strategic priorities," explains Anne Heitlinger, housing program and policy specialist for Minnesota Housing and member of the Greater Minnesota ISG. "It's a really coordinated process where people from the different agencies make sure they're funding projects in a way that maximizes the dollars spent."

Minnesota-specific policies

In order to further preservation of small properties in rural areas, Minnesota Housing created the Rural Rehab Deferred Loan (RRDL) program, which is geared toward smaller projects in greater Minnesota. Authorized in 2011, the program can make loans of up to $300,000 at zero percent interest and is available for owners who are seeking financing for the moderate rehabilitation of their developments' residential units.[5]

"There are a lot of mom-and-pop housing operations in rural Minnesota, projects with fewer than ten units," Heitlinger says, "and we were finding that a lot of the older properties had deferred maintenance needs. The RRDL program was created to fund rehab work at these projects."

In addition to the RRDL program, Heitlinger points out three rural-preservation-oriented policy changes that resulted from discussions among Minnesota's affordable hous-

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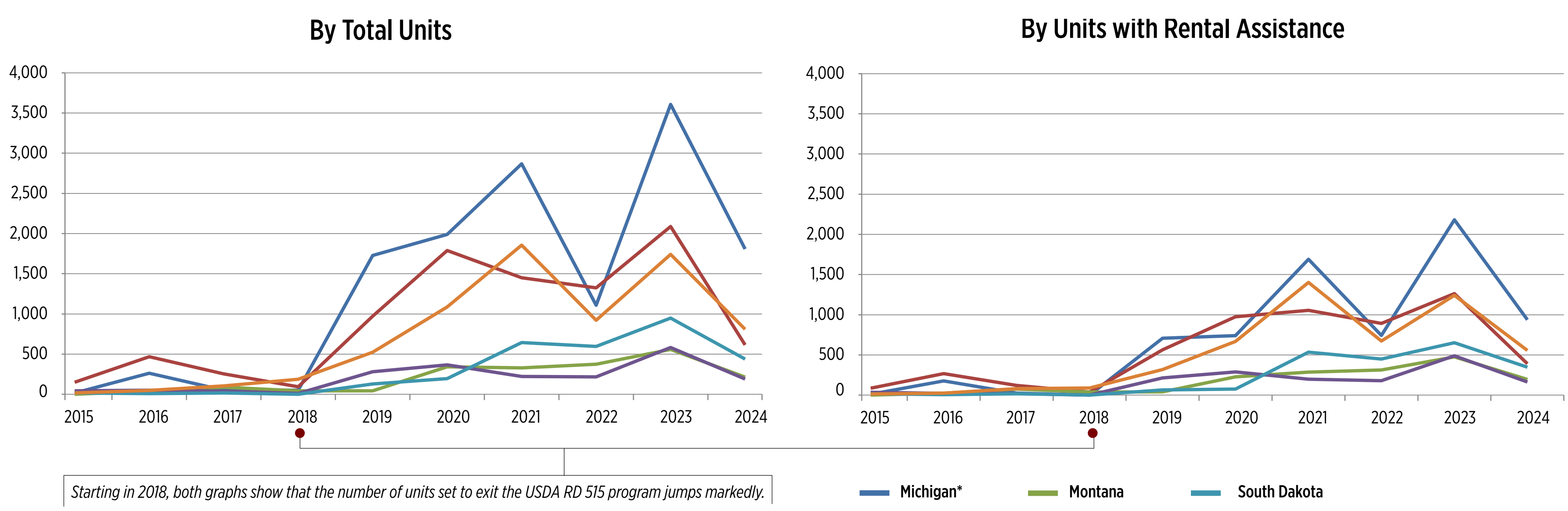
Minnesota Preservation Plus Initiative

In 2008, the MacArthur Foundation funded an initiative to preserve 18,000 units of affordable housing across the state of Minnesota, in rural and urban settings, by the year 2018. To reach this goal, the Greater Minnesota Housing Fund, the Family Housing Fund, and Minnesota Housing have collaborated on strategies to facilitate information-sharing among affordable housing stakeholders, design prototypical buyer-seller transaction processes to expedite the transfer of ownership, create a statewide inventory database, and secure new funding sources for the preservation of rural affordable housing. For more information about the initiative, visit Greater Minnesota Housing Fund's web site at gmhf.com.

Affordable Housing Units in the Ninth Federal Reserve District that Are in Multifamily Properties Whose Section 515 Mortgages Are Set to Mature in 2015–2024



Starting in 2018, both graphs show that the number of units set to exit the USDA RD 515 program jumps markedly.

**Numbers for Michigan and Wisconsin reflect the entirety of the two states, not just the portions that lie in the Ninth Federal Reserve District.*

Keeping communities informed through the open data movement

A conversation with Otto Doll of the City of Minneapolis

By Jacob Wascalus

More and more cities across the country have begun to make available for download the data that they collect and manage as part of their day-to-day administrative tasks. For many parties, including neighborhood groups, entrepreneurs, and community-minded "civic hackers," this information holds great value for understanding a city's people, places, and challenges.

The City of Minneapolis joined this nationwide trend by unveiling its own open data portal in December 2014, making dozens of datasets associated with the city's physical assets, environmental resources, and administrative records available for download at opendata.minneapolismn.gov. As of June 15, 2015, the city's open data portal had logged more than 400,000 visits, 5,400 dataset views, and 1,200 data downloads.

Community Dividend recently spoke with Otto Doll, chief information officer for the City of Minneapolis, about the city's decision to open up its data to the public. Doll shared his insights about the benefits associated with an open data policy; how open data can help communities, including low- and moderate-income neighborhoods; and what other municipalities should consider when contemplating the creation of their own open data portal.

PHOTO BY CHRIS LONG

Otto Doll, chief information officer for the City of Minneapolis

Community Dividend: The City of Minneapolis recently adopted an open-data approach. What benefits do you associate with making some of the city's administrative data available to the public?

Otto Doll: I think it's fair to say that transparency is the number one benefit in our minds. The City of Minneapolis makes use of a lot of data—more than 100 trillion characters of data, in fact—and personnel from different departments within the city are making decisions based on that information. Being able to share much of that data so members of the public can see how decisions that affect them are being made is really the first motivator.

Another benefit of making data publicly available is the time savings for the city departments themselves. Today, people request information all the time, and some of those requests are repetitive, with people asking for a lot of the same information every month. By having data available on our web site for requesters to download themselves, we save staff time and resources, which in turn helps us operate more efficiently.

We're hopeful that by being transparent and getting information out there, the public will become more informed about their city, and we're hopeful that special interest groups or the civic hacking community* can use the data to create an application that a lot of us who live in or visit the city can use.

CD: What's an example of how administrative data can be used to help or improve communities in the city, including low- and moderate-income neighborhoods?

OD: A good example would be the data associated with the whole world of development. The city collects information from developers before deciding whether to grant construction and other types of related permits, and that sort of information is useful to neighborhoods that would like to know more about the project that is being proposed. The data would show how the city believes the development would affect the area, including the effects on traffic. This type of information is useful for residents who wish to voice concerns about a specific project. We also release data about all of the 311 calls the city receives. A community group could analyze the data to determine some of the more frequent complaints and concerns deriving from their neighborhood and could then, if it's in their power, work to alleviate some of the quality-of-life issues that residents are voicing.

CD: Who's a typical consumer of the data you offer?

OD: There's a variety of stakeholders out there: special interest groups and people with a business intention; civic hackers, who are sometimes associated with neighborhood groups or just working by themselves; even the guy on the street—anyone and everyone.

CD: What formats do you make your data available in? Is it readily usable for someone with average computer skills?

OD: Our open data portal itself offers just raw information. We present that data in several ways: you can pull it down in all its raw glory; you can look at the data in columnar format; you can push it down as a spreadsheet to yourself; or you can make use of the API [application programming interface] that we have available, if you're developing an application or map of some sort.

I don't think the average user wants to use—and maybe doesn't have the technical knowhow to deal with—the raw data, even though we make that available. They want it put in context, such as on a map, so for some of the data we release, we offer a service called MapIT Minneapolis [at cityoflakes.maps.arcgis.com/home]. It features interactive maps of the location of foreclosures, of vacant and condemned properties, even of dangerous dogs that the city has identified. This resource is not what the city views as its open data portal—it's a separate but connected resource—but I think that's where more and more of our effort will probably go over time.

CD: Data privacy is a huge issue for all kinds of institutions right now. How do you determine what data can be made publicly available and what can't? Are there laws governing that?

OD: Yes, and they start at the federal level. Disclosures of things like health information and law enforcement information are covered nationally through federal laws. Then you get to the state level. For example, in Minnesota, we have the Data Practices Act, which regulates data management and presumes government data is public unless it's specifically classified as non-public. Then sometimes there are local ordinances, such as rules prohibiting the disclosure of certain things. I advise cities that are considering a move to open up their data to look at the data governance rulesets within the full government stack, from federal all the way down to local.

We also talk to our city departments, because while we in information technology are just caretakers of the data, the departments are the owners. Sometimes they'll know the data requirements a lot better than we do, or are at least more sensitive to them, so we rely on the departments to confirm everything before we release data to the public.

CD: If a city decides to move ahead with making its data public, what steps should it pursue to get the process going?

OD: One of the first things they have to do is figure out the proper approach to take with other departments. While some city personnel might be on board with releasing departmental data, others may not think much about it. One of the biggest worries that people from the departments might have is that if they put this information out there, someone from the public might misinterpret it, and then the city would have to spend a lot of time explaining why, say, someone's assessment may be inaccurate, when in fact the homeowner isn't interpreting the information correctly. To help avoid this friction, we created an open data policy that gave general direction to the departments. That's one thing.

Another critical thing you have to do is come up with a very tight process for vetting all of the data sufficiently. You want a method to ensure that no personally identifiable information or other information that's restricted from public exposure gets released—because obviously, that would be a really bad scene if you let loose with information that should never have been made public. As I mentioned before, you have to consider the various laws that might govern data: federal, state, and perhaps local statutes that you have to abide by. At the City of Minneapolis we actually do triple checks on anything we're going to release.

The third thing is the need to engage with users and stakeholders to learn if the tool itself—the portal—is helpful. We want to know if the open data portal works or if it doesn't work.

CD: As far as personally identifiable information goes, what's an example of a dataset or a type of data that you avoid releasing?

OD: An example would be some of the information submitted to our 311 system, which city residents can use to report non-emergency things like code violations. Today a person can use our 311 smartphone app to notify the city about something that needs attention, such as a pothole. So the person takes a picture of the pothole, writes a short description, the app records the geographic coordinates of where the picture is taken, and that goes to our centralized 311 system. As I mentioned before, we currently release some of our 311 data, but here's the challenge: let's say you took that photo of a pothole but you also captured the license plate of a nearby car in the shot. If we were to release the photo to the public, the license plate would have to be blotted out, because that is personally identifiable information. The technology is available to recognize license plates and other personally identifiable details in photos and to blot them out, but we simply don't have the money or resources to do that. So rather than risk putting something out there that contains that kind of information, we'll exclude that data from public access until we can come up with a cost-effective solution. In the meantime, we make available the text portion of the 311 data.

CD: Including the 311 data, you currently have 62 datasets available on the portal. Besides updates to older datasets, do you plan to release any new categories of datasets—from a department that hasn't contributed data yet, for instance?

OD: Yes, historical election data, snow emergency tow data, bicycle trail updates, inspection data. Like I mentioned before, we haven't made public anywhere near the 100 trillion characters of data the city has. A good bit of that information still needs to be organized, structured, and automated so that we can consistently put it out on the portal. It'll just take time to go through all of it.

CD: What do you think the future holds for the open data movement?

OD: One of the traps that people in information technology fall into with our users is that we create systems of record, meaning we release the information and that's it. But to me, the future is really about creating systems of engagement, where we plan in advance around our ability to share information, to share it in context, and to interact with the public regarding the information.

One of the things Minneapolis's open data policy requires is that all future procurements of information systems must ensure the ability to extract data from that information system and easily make it public through the open data portal. But beyond making it available, how are we engaging the public? We still need the portal to serve as a system of record, but we also need to ask, how can we get feedback? How do we ensure people can question the validity of the information we've released and how can we correct any errors? I think this type of engagement with our constituency will pay a lot more dividends.

* "Civic hacker" is a term for computer programmers who volunteer their skills for community-minded purposes. For more on what they do, see "Techies and neighborhood groups hack their way to community solutions" in the October 2013 issue of *Community Dividend*, available at minneapolisfed.org.

Preserving rural affordable housing

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ing organizations: the decision by Minnesota Housing to dedicate $300,000 annually in Low Income Housing Tax Credits (LIHTCs) for rural rehabilitation and preservation projects; the decision by the same agency to give more favorable consideration, as part of the LIHTC allocation process, to projects that seek to preserve affordable developments;[6] and the decision by the funders that use the Consolidated RFP to give priority to projects that have critical physical condition needs, have owners with limited capacity to address identified issues, or are in danger of converting to market rate.

Preservation efforts elsewhere

Efforts to preserve affordable housing properties range in intensity from state to state. Tracy Kaufman, the director of the National Preservation Initiative of the National Housing Trust, points to a handful of cities and states, among others, that have launched particularly effective collaborative preservation campaigns: the states of Ohio, Washington, Michigan, and Massachusetts, and the cities of Chicago and Portland (Ore.).

"And Minnesota, too, is way out in front of a lot of states in terms of coordinating affordable housing preservation efforts," she says. "All of these areas have different approaches, but they're all great models for what other cities and states can do to more effectively and strategically target their limited resources."[7]

In the Ninth Federal Reserve District, affordable housing stakeholders in Montana started a conversation a few years ago about the issues associated with preserving and stabilizing the state's inventory of Section 515 developments. Personnel from USDA RD-Montana, the state's network of human service agencies known as Human Resource Councils (HRCs), and the Montana Board of Housing, among others, have been meeting to discuss the options available for these preservation efforts.

Jim Morton, executive director of District XI HRC, which serves Mineral, Missoula, and Ravalli counties, says that many current Section 515 property owners in Montana are past retirement age and would like to transfer their developments to nonprofits, but doing that would create a tax liability that is often too high to bear for some.

"These are folks in their 70s and 80s who want to do the right thing and keep the affordable developments going but don't have the means to pay the costs associated with a transfer," he says, explaining that many owners would owe money because they declared depreciation of the property on previous tax returns. "This is certainly a problem in Montana, but we've started looking for solutions."

In Michigan, the state housing finance agency specifically considers Section 515 properties when it allocates LIHTCs and, of the total LIHTCs available each year, 10 percent is set aside for projects in rural areas. The LIHTC program has a competitive allocation component, for what are called "9 percent tax credits," and a non-competitive awarding process, called "automatic 4 percent tax credits." According to Andrew Martin, the allocations manager for the Michigan State Housing Development Authority (MSHDA), his agency tries to direct some proposals for the competitive 9 percent tax credit program to the non-competitive 4 percent tax credit program; the 4 percent tax credit program typically works better for larger developments, which are more often found in metropolitan areas.

"This frees up the pool of 9 percent tax credits to use for smaller, more rural projects," he says, noting that MSHDA has allocated tax credits to 37 Section 515 properties since 2010. "For the Section 515 properties, keeping the rental assistance going is key to all of these deals."[8]

In the absence of collaboration

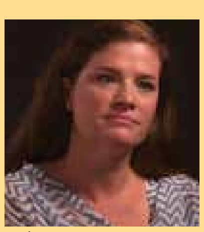
Heitlinger, of Minnesota Housing, contends that without the cooperation and coordination among the members of the Greater Minnesota ISG, the efforts to stabilize and preserve affordable rental developments in rural Minnesota would be far less effective.

"Overall, we would do fewer projects, with less information, and with a less synchronized approach," she says. "We currently get three or four times more requests than we can actually fund, so you really want to make strategic decisions about what you're funding."

Over the past decade, the Greater Minnesota ISG has helped preserve 26 Section 515 projects in Minnesota containing approximately 640 units. Sixteen of those units belong to the Prairie Rose, Skip Duchesneau's recently purchased and totally rehabbed development in northern Minnesota. Had it not been for the phone call he took from a Greater Minnesota ISG member that day, those units might not have been among the hundreds of units preserved.

"It really helped that people from Greater Minnesota Housing Fund and HUD were both behind this," he says.

ONLINE EXTRAS



Robyn Bipes

In a series of brief supplemental videos, learn more about rural affordable housing preservation from Robyn Bipes, director of programs and lending at Greater Minnesota Housing Fund and chair of the Greater Minnesota Interagency Stabilization Group.

Available at **youtube.com/user/MinneapolisFed.**

For more on rural housing

To learn about constraints on workforce housing development in some non-metro communities in the Ninth District, see "Help wanted for workforce housing" in this month's issue of *fedgazette*.

[1] This figure, provided by HousingLink, represents Minnesota's unit total for 2013.

[2] This number represents the total number of subsidized affordable rental units in 2013 in greater Minnesota, reported by HousingLink. It was calculated by subtracting the number of subsidized affordable housing units in the Twin Cities metropolitan area, reported to be roughly 64,000 in 2013, from the number of subsidized affordable housing units statewide, reported to be approximately 110,000.

[3] For more on Section 515 mortgage criteria, visit rd.usda.gov/programs-services/multi-family-housing-direct-loans.

[4] The historic total of affordable rental units financed under the Section 515 program is listed on the Housing Assistance Council's Section 515 information page at ruralhome.org/storage/documents/rd515rental.pdf. The figures on properties currently remaining in the program are from USDA RD's *Multi-Family Housing Occupancy Statistics Report as of September 2014.*

[5] Visit www.mnhousing.gov for more information.

[6] The LIHTC is a federal tax credit program designed to spur private investment in affordable housing. For more on LIHTCs and how they are allocated, see "LIHTC priorities capture state affordable housing needs" in the April 2015 issue of *Community Dividend,* available at minneapolisfed.org.

[7] For information on preservation policies for all 50 states (and some cities), visit the National Housing Trust's PrezCat web site at prezcat.org.

[8] Nearly 20 states set aside a portion of their 9 percent tax credit for rural projects. For more on this, see prezcat.org.

CDFIs seek to innovate to compete with speedy online lenders

By Jacob Wascalus

The field of small business lending is seeing an emergence of for-profit, online lenders that use innovative software tools to provide small business loans very quickly—often in as little as 24 hours. For many mission-focused small business lenders, the trend presents an opportunity to reshape their segment of the industry. With more and more entrepreneurs turning to quick lending options, could mission-focused lenders, such as community development financial institutions (CDFIs) and microlenders, use similar technology tools to improve efficiency and capture some of this business activity?

CDFIs are specialized entities that provide loans, investments, and services in underserved areas. While they're known for delivering technical assistance and other intensive support to their customers, they're not necessarily structured to process loans quickly. But according to Mark Pinsky, president and chief operating officer of the Opportunity Finance Network, a nationwide CDFI network, some CDFIs and other mission-focused lenders are experimenting with innovative technology platforms to speed up their loan origination and underwriting processes. Some of the experiments will fail, he says, but others might turn out to be success stories.

"These lenders will serve as great test tubes of innovation while they try to figure out what they can do in this space," Pinsky says. "As an industry, we can learn from their experiences and adapt."

Based on conversations with experts in the community development finance field, *Community Dividend* highlights below three relatively new technology innovations that mission-focused lenders have launched to speed up their loan activities.

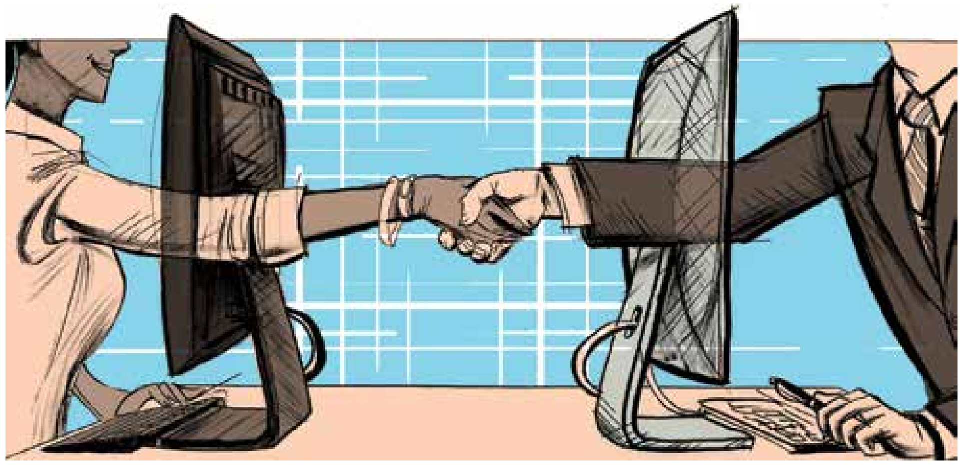


ILLUSTRATION BY MICHAEL JACOBSEN

Quickly assessing a potential borrower's risk

LiftFund (liftfund.com), a San Antonio-based CDFI formerly known as Accion Texas, hosts the web-based Microloan Management Services (MMS) platform, which processes loan applications in a matter of minutes to assess an applicant's risk level, categorizing it as either low, moderate, or high. According to Janie Barrera, LiftFund's president and chief executive officer, the software saves lenders time as it weighs a battery of applicant information (e.g., assets, liabilities, credit score, etc.) to reach its prediction.

"It's carving a good two days off of the loan origination," she says, explaining that the algorithm underlying the MMS software is based on 12,000 completed loan applications, with repayment history, that the organization has processed since its incorporation in 1994. "We wanted to develop a profile of a good-paying customer and a not-so-good-paying customer. That's what MMS is. We now don't have to spend as much time with that client upfront."

LiftFund has been using MMS for all of its loans since developing the software in 2007. Since the product was made available for licensure in 2008, 14 other CDFIs have incorporated it into their own loan application processes, with three more adoptions in the works. As evidence of its effectiveness, Barrera says that 96 percent of LiftFund's borrowers pay back their loans. And although she can't disclose the rate of default for the other lenders that use MMS, she notes that the software has seen 5 to 7 percent annual growth in the number of applications it has processed on behalf of the other CDFIs since 2009.

Building a low-cost distribution infrastructure

The Association for Enterprise Opportunity (AEO), a national trade association for microfinance and microbusiness, recently launched the TILT Forward initiative (tiltforward.com), which aims to improve the technology and capabilities of mission-focused lending. Tammy Halevy, senior vice president of new initiatives at AEO, says TILT Forward is building low-cost product and service distribution infrastructure to coordinate and leverage the resources of CDFIs and other mission-focused lenders across the country.

An integral part of TILT Forward is DreamFund, a nonprofit intermediary that AEO launched in June. DreamFund was established to enable mission-focused lenders (and others) to offer third-party licensed loan products at below-market rates to business owners in underserved communities. DreamFund serves as a common gateway for CDFIs that are too small to develop innovative product platforms or that seek to limit their exposure to the risk from any single product. Working on behalf of CDFIs that participate in the TILT Forward initiative, DreamFund screens and evaluates products systematically and then negotiates loan terms.

The first product made available via the DreamFund gateway is a short-term working capital loan licensed from OnDeck, a prominent for-profit online small business lender that has developed proprietary models for evaluating the credit risk of small businesses. Participating CDFIs have originated more than $1 million in these loans to date, saving business owners an average of more than $2,700 per loan when compared to market rates. CDFIs set pricing for the licensed product in their target market (rates range from 16 percent to 22 percent), retain control of the relationship with the business owner, and provide guidance to help the business prosper. According to Halevy, the DreamFund model enables CDFIs to say "yes" to more clients and better meet the needs of small businesses in their communities.

"CDFIs are uniquely positioned to serve their communities but are constrained in many ways," she says. "We're trying to provide them with tools to help." DreamFund plans to license additional product platforms and AEO expects it to evolve into an independent utility for the industry.

Joining forces with an online, alternative lender

Opportunity Fund is responding to the emergence of online, alternative lenders by partnering with one, says Caitlin McShane, marketing and communications director of the San Francisco-based CDFI. Under the terms of a partnership with online loan provider Lending Club that is set to launch in January 2016, Opportunity Fund is setting aside $10 million to loan to California-based small business applicants that are rejected by Lending Club but fit the CDFI's applicant profile.

"For the small business, the application process will be seamless," explains McShane, noting that applicants will apply through the Lending Club web site. "They won't actually receive a message indicating they are being rejected by Lending Club. Instead, they'll be instantly told that they qualify for a loan from us."

After the qualification notice pops up, it will take Opportunity Fund about two days to complete the rest of the underwriting process. While general underwriting terms for loans generated through Lending Club's web site are still being determined, McShane estimates that the loans will range from $5,000 to $50,000, with an interest rate between 16.9 and 18.9 percent, to be paid back after 24 to 36 months.

After Opportunity Fund exhausts its $10 million allocation, the CDFI will suspend its lending activity and monitor the portfolio of loans for 9 to 12 months.

"We'll see what we've learned and decide how we tinker with the process for stage two," says McShane. cd

Streamlining the SBA 7(a) loan application

The U.S. Small Business Administration (SBA) 7(a) loan program is the federal government's primary means of helping small businesses start up or expand. The program works by guaranteeing loans made by participating lending institutions—a process that can take several months. Minneapolis-based Community Reinvestment Fund, USA (CRF), a CDFI with a national scope, has created a web-based lending platform called Spark (crfusa.com/spark) that reduces the time to originate an SBA 7(a) loan by as much as 40 percent, according to Nick Elders, CRF's vice president of technology services and solutions.

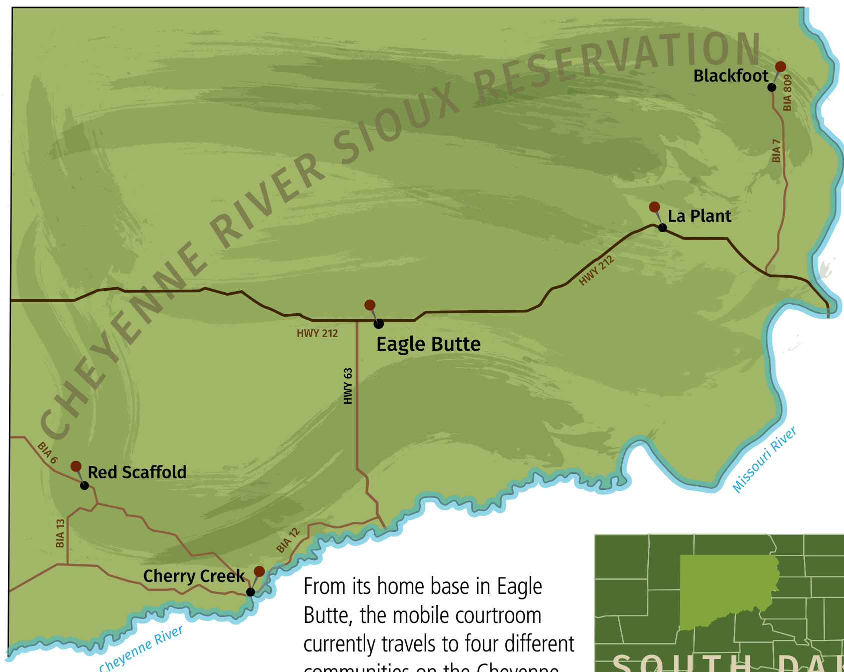
The software streamlines the 7(a) loan application process from an average of 120 days (for most lenders) down to 70 by eliminating much of the redundant data collection and re-entry many lenders face and assisting applicants through tips and online tutorials embedded in the interface. Moreover, explains Elders, the program speeds up the process by leveraging various credit risk models to help the lender determine an applicant's risk—a function Elders describes as "starting to score the unscorable." Based on the outcome of this evaluation, the lender will know how to proceed with the loan or if it should conduct a further examination of an applicant's credit risk.

"This is an engineered, turnkey product and process," Elders says, noting the software includes an extension that helps lenders sell their loans on a secondary market. "It incorporates the lender's look, their feel, their policies, their procedure, their fonts, their people, their logo. Their brand is embedded into the software and it becomes a natural extension of their lending environment."

Elders explains that while Spark currently facilitates SBA 7(a) loans, CRF plans to expand its applicability to microlending, merchant cash advances, lines of credit, and any other conventional lending that CDFIs do. So far, eight lenders have licensed the software since it became available in June 2015.

Mobile courtroom provides justice on wheels for the Cheyenne River Sioux Tribe

By Paula Woessner



From its home base in Eagle Butte, the mobile courtroom currently travels to four different communities on the Cheyenne River Sioux Reservation.

The mobile courtroom is customized inside and out to provide a visible and comfortable setting for a host of legal proceedings.

PHOTOS BY ROSS DUBRAY/WEST RIVER EAGLE

For people in remote towns on the 2.8 million-acre Cheyenne River Sioux Reservation in north central South Dakota, making a court appearance means finding a way to travel up to 160 miles round-trip to the town of Eagle Butte, where the tribal court center is located. If they have no vehicle, no gas money, or no means of paying someone to drive them—a common scenario in a chronically impoverished community where per capita income is roughly $8,000 a year—they will fail to appear in court and then be fined for contempt. If there are subsequent summonses, the scene will likely repeat and repeat until the accumulated fines amount to many hundreds of dollars. It can escalate into a seemingly hopeless situation.

"This is not justice," says Kimberly Traversie, a director and grant writer for the Cheyenne River Sioux Tribe. "This is piling fine after fine on people who have no resources to pay, and it can lead to depression and other problems."

The travel requirement isn't just an issue for people who've had brushes with the law. A trip to Eagle Butte has long been necessary for addressing any legal need, including orders of protection or civil commitment, custody petitions, and divorce decrees. In other words, the sorts of matters that can strain or derail everyday life until they're settled.

A few years ago, while researching means of improving access to justice on the reservation, Traversie came across an innovative idea from developing countries such as India, Guatemala, and Nigeria: If people can't travel to get to the legal services they need, bring the services to them by creating a courtroom on wheels. She developed the idea into a grant proposal to the U.S. Department of Justice (DOJ) and in late 2013 learned that the tribe would receive a three-year, $714,529 grant to create the first and only mobile courtroom in the United States.

Clearing the backlog

The DOJ grant covers operating costs and staffing for a bus-based courtroom, including a tribal judge; a court clerk; a bailiff who doubles as the bus driver; and a one-year salary for a Mobile Courtroom Coordinator, who was on board throughout 2014 for the grant period's Year One planning and implementation phase. To help determine where on the reservation the courtroom should go and what services it should offer, the tribe conducted outreach among the reservation's 21 communities during Year One and surveyed tribal members about their preferences. Year Two of the grant, which is under way through 2015, is designated for launching the mobile courtroom and delivering legal services in three communities. In Year Three, the objective is to expand services to three additional communities. Since the grant only covered the justice-related parts of the project and not the cost of purchasing an appropriate vehicle, the tribe contributed $175,000 in order for a custom outfitter in Sedalia, Colo., to convert a bus—technically, a truck chassis with an extended, 33-passenger cab—into a functional courtroom space.

Since hosting its first legal proceedings in February 2015, the mobile courtroom has already surpassed its Year Two objective of visiting three communities. Every Friday, it parks in a prominent location in one of four reservation towns identified through the survey process as being the most cost-effective places to stop: La Plant, Red Scaffold, Blackfoot, and Cherry Creek. Visits are promoted in advance through fliers and through direct communications with tribal members who have business before the court. They're given the option of setting up their legal appointments on the bus or in Eagle Butte, and according to Chief Judge Brenda Claymore, use of the bus is gradually catching on.

"Initially, when we offer people the bus option, their reaction is, 'Really? I think I'd better just stick with going to Eagle Butte,'" she says. "They're skeptical, because this is so new. But then later they call and ask to be rescheduled to come to the mobile court in their community."

One top priority for the initiative is to start clearing a tremendous backlog that has built up over the years because of tribal members' inability to appear in Eagle Butte to resolve their cases. The docket on the bus includes the backlog plus a host of other matters, such as misdemeanors, small claims, and truancy. For criminal cases, the mobile courtroom holds arraignments only, not trials, and it sticks to proceedings tied to "victimless crimes"—low-level offenses where there's no security risk related to having a victim and perpetrator together in a confined space.

Another top priority is to put a positive face on tribal justice, so tribal members who may have had negative experiences with the system will begin to view it as something other than punitive. Traversie notes that such a change in perception would align with the tribe's traditional philosophy of justice, which she characterizes as rehabilitative and therapeutic.

Everyone who receives services on the bus is asked to complete a satisfaction survey, the results of which will be used to gauge the project's progress and make improvements as needed. According to Claymore, information on total cases heard or individuals helped isn't available yet, since the initiative is still getting established, but those figures will be included in a report to the DOJ after Year Three.

An expansive vision

Federal financial support for the mobile courtroom will run out when the three-year grant period ends, but Traversie is hopeful about finding other funding sources to keep things going.

"The DOJ's rules prohibit us from being funded for exactly the same purpose twice, but there are other justice-related grants we can apply for," she explains. She and Claymore envision expanding the tribe's mobile justice services to include court-ordered drug and alcohol treatment, probation monitoring, and even traditional Lakota peacemaking circles.

Traversie is also hopeful that the initiative will serve as a model for other communities that struggle with access-to-justice issues related to poverty and distance. "This would be easily replicable in different jurisdictions, to fit a different tribe or even just a different county. These are issues that happen in rural America all the time."

For now, the only mobile courtroom in the country is helping people take concrete steps to settle disputes, resolve pressing personal matters, and conserve scarce financial resources. In Traversie's view, the sum effect of those resolutions and actions is a stronger community.

"This contributes to the well-being of our people," she says. "We can't expect everyone to live in Eagle Butte. People want to live where they're from, and we want to make it possible for them to do that comfortably. Because they don't have the financial resources to make it to their court date, we did this instead, to lessen their economic and financial burden. To make life livable." cd

News and Notes

Fed appoints Tingerthal to new advisory council

The Board of Governors of the Federal Reserve System (Board) has appointed Minnesota Housing Commissioner Mary Tingerthal to its new Community Advisory Council, which will convene for the first time on November 20 in Washington, D.C. The council is made up of 15 individuals with community development- and consumer-related expertise who will provide the Board with information and advice on policy matters and emerging issues. Tingerthal, who is the only council member appointed from the Ninth Federal Reserve District, has served as Minnesota Housing Commissioner since 2011. She previously served as president and chief executive officer of the National Equity Fund and has held senior positions at GMAC Residential Funding, Housing Partnership Network, Community Reinvestment Fund, and the City of St. Paul.

Sunrise Banks receives Wells Fargo NEXT Award

Wells Fargo NEXT Awards for Opportunity Finance

Wells Fargo has named St. Paul-based Sunrise Banks as one of three recipients of its 2015 NEXT Awards for Opportunity Finance. The award recognizes community development financial institutions, or CDFIs, that develop innovative product offerings and services to help unbanked and underbanked consumers. (CDFIs are specialized entities that provide loans, investments, and services in underserved or economically distressed areas.) Sunrise Banks will receive $2.2 million to expand True Connect, an employer-based, small-dollar loan product that was created to serve as an affordable alternative to payday loans. True Connect integrates with employers' payroll systems and uses scalable, proprietary software designed by Sunrise and its technology partner.

The two other NEXT award recipients for 2015, which will each receive $1.725 million from Wells Fargo, are Freedom First Federal Credit Union in Roanoke, Va., and Lower East Side People's Federal Credit Union in New York City.

Watch now: An Introduction to CRA

Available at fedcommunities.org/multimedia

The Community Reinvestment Act (CRA) helps bring billions of dollars in bank capital to low- and moderate-income communities every year, but its provisions aren't always well understood. Whether you're a banker, community leader, or consumer, this short video from the Federal Reserve will help you get to know the CRA better.

Calendar

2015 Opportunity Finance Network Conference: Opportunity. Made in America.

November 9–12, Detroit

Join more than 1,200 CDFI practitioners, funders, investors, and policymakers to learn, strategize, and network. **conference.ofn.org**

Intent vs. Impact: Evaluating Individual and Community-Based Programs

November 16–17, Dallas

Presented by the Federal Reserve Bank of Dallas. This research-focused event will explore the evaluation of programs and policies that affect individual and community financial well-being. **dallasfed.org/cd/events**

2015 National Tribal GIS Conference: Celebrating GIS Within Indian Country

November 16–20, Albuquerque

Featuring interdisciplinary dialogues with geographic information systems users from industry, academia, and federal agencies. Presented by the National Tribal Geographic Information Support Center and Southwestern Indian Polytechnic Institute. **tribalgis.com**

Save the date!

2016 National Interagency Community Reinvestment Conference

February 7–10, Los Angeles

This biennial training and networking event will feature innovations in community development policy and practice, CRA examination training, and community development tours of Los Angeles. Presented by the Federal Reserve Bank of San Francisco and federal financial regulatory partners. Watch **frbsf.org/community-development/events** for registration details.

The October CommunityDividend is our last print issue.

The delivery will change, but the product will not.

Find us online!
minneapolisfed.org/publications/community-dividend

To receive regular e-mail alerts of community development news and other content from the Minneapolis Fed, please complete the survey card included with this issue or visit minneapolisfed.org/forms/publications-survey.