



INNOVATIONS IN COMMUNITY DEVELOPMENT

Innovations in Community Development is a series of descriptions of effective community revitalization programs, many of which were developed by Enterprise in partnership with nonprofit organizations, financial institutions, local governments and corporations. Enterprise is a national nonprofit dedicated to improving affordable housing and life opportunities for low-income families and communities. You can find these and other resources to support local revitalization efforts online at www.enterprisecommunity.org/resources.

ROCHESTER HOUSING DEVELOPMENT FUND CORPORATION: RENOVATING HOUSES AND REBUILDING LIVES

An innovative organization rebuilds vacant homes, creating homeownership opportunities for low- to moderate-income residents.

Summary

Vacant, rundown houses are a neighborhood eyesore. They lower property values and turn away prospective residents. Under the Department of Housing and Urban Development's Asset Control Area (ACA) program, however, vacant houses across the country are being renovated and resold at an affordable price to moderate- and low-income families. The Rochester Housing Development Fund Corporation was founded in 2001 to help the city of Rochester, N.Y., use HUD's ACA program to improve housing in Rochester. As of February 2006, the Rochester Housing Development Fund Corporation had acquired and rehabilitated 267 vacant homes, 202 of which were sold to first-time home buyers, and 65 of which were under contract to be purchased.

This program is part of Enterprise's initiative to increase minority homeownership. While homeownership rates in America are at an all-time high, minority homeownership rates continue to lag dramatically, remaining below 50 percent. Too few minorities benefit from the household security and wealth-building that homeownership provides, and too few minority neighborhoods benefit from the stabilizing force homeownership has on communities. Enterprise works to address this disparity, offering an array of financial products and support services to help low-income families qualify for, purchase and maintain their own homes.

HUD's ACA program has been in operation since 2000, first as a pilot program and now as a permanent initiative. HUD uses the ACA program in both strong and weak real estate markets. In strong markets, ACA is used to interrupt the cycle of foreclosures that typically results from "flipping." This is when unscrupulous investors purchase foreclosed properties from HUD, make only superficial repairs and then sell the properties to people who cannot afford the serious repairs that quickly become necessary. This forces the home buyers, many of whom have FHA mortgage insurance, to default, and the cycle of foreclosure and HUD ownership begins anew. In weak housing markets, such as Rochester, foreclosures are more likely to result from homeowners experiencing significant challenges, such as the loss of work, divorce, death of a family member, debilitating illness, drug addiction or legal problems.

Although there are numerous ACA programs across the nation, the Rochester program is unique because it is implemented by a public-private financial and development partnership spearheaded by the city, designed and managed with technical assistance from a national nonprofit community development organization and capitalized by loan funds from nonprofit, public and private lenders.

The Rochester Housing Development Fund Corporation, and a few similar ACA programs, include some other innovative aspects as well:

- Rehabbing the homes substantially, including eliminating lead and asbestos hazards and achieving energy efficiency
- Requiring all potential buyers to receive homeownership counseling in order to improve their chances of success as homeowners
- Centralizing much of the operational infrastructure necessary to purchase and rehabilitate hundreds of homes (Compared to past efforts where many nonprofits independently handled the entire process, centralization achieves efficiencies of scale in personnel costs and allows for savings on bulk purchases of building supplies.)

Community Need

Over the past few decades, Rochester has experienced significant population loss due to downsizing in the manufacturing sector. Some who left the city also left behind vacant homes, causing instability for the communities and their remaining residents. Rochester's homeownership rate of 40 percent is well below the average of 50.5 percent for cities nationally. The problems created by the numerous vacant homes in Rochester are exacerbated by the fact that the cost to rehab the aging structures generally exceeds the properties' value.

Each year in Rochester, more than 1,000 mortgages are foreclosed. Of these, approximately 67 percent involve FHA-insured properties and are therefore controlled by HUD. Three-quarters of these properties are single-family homes. In addition, the city acquires approximately 350 properties each year through tax foreclosures. Of these, 20 percent are single-family units that are suitable for rehabbing.

Program Description and Implementation

The Rochester Housing Development Fund Corporation was created in 2001. The community, through a city program called Neighbors Building Neighborhoods, was instrumental in developing the program concept. Neighbors Building Neighborhoods is a citizen planning process that divides the city into 10 planning sector areas. Each planning sector group organized itself, created community vision statements, identified key neighborhood issues and priorities and developed action plans to realize their goals. Through this process, residents targeted the need for quality, affordable housing and increased homeownership opportunities in many areas.

Enterprise helped the city model Rochester's ACA program on programs in larger cities with similar housing issues. The organizational structure in particular was informed by Enterprise's experience with the CityHome model in New York City and the Enterprise Home Ownership Partners' model in Los Angeles. (The Los Angeles program has been described in detail in a profile within this Innovations in Community Development series; the CityHome profile is due out in late 2006.)

An ACA agreement with HUD established the city of Rochester's and the Rochester Housing Development Fund Corporation's obligations for participating in the program, and included a business plan and a quality control plan. The corporation holds title to the properties throughout the construction, rehab and sale; it clusters and assigns properties to developers; works with nonprofit developers to produce a standardized construction scope and specification; packages financing and monitors the rehab and sale of the properties.

In the spring of 2002, the Rochester ACA program was forced into a moratorium when HUD stopped all ACA activity to perform an audit of the national program. Prior to that time, HUD had no regulations in place for ACA programs and, as a result, the programs were executed differently across the country. The moratorium was lifted in January 2004. During the break, Enterprise worked at the national level to ensure that Rochester had input into HUD's ACA program changes, and the city made city-tax foreclosed properties available to the Rochester Housing Development Fund Corporation so it could continue its work.

The program's original plan was to provide affordable housing for both rental and homeownership. Therefore, under Phase I of the program, the Rochester Housing Development Fund Corporation acquired single-family homes in addition to 21 scattered-site apartments. However, as part of the new regulations, HUD now requires that all housing developed through ACA programs is owner-occupied, preventing any additional work on rental housing.

Financing

Under the Rochester program, loan pools capitalized by participating lenders provide acquisition and construction loans. In order to create two consecutive loan pools, one for each phase of the program, the Rochester Housing Development Fund Corporation established two credit facilities. (A credit facility is the mechanism lenders use to fund a loan pool at an agreed-upon interest rate and other specified terms and conditions.) To minimize expenses and expedite the purchase of properties, the credit facilities are unsecured (they do not require mortgage collateral), and commitment fees are not charged. Collateral is provided in the form of a loss reserve funded by the city.

Monthly advances are made by the lead lender based on work in place, as approved by the Greater Rochester Housing Partnership, which serves as the fiscal agent for the credit facilities. Interest on advances is repaid monthly

to participating lenders from a pre-funded interest reserve established by the city. The balance in the interest reserve must be sufficient to fund interest for up to 90 days.

The credit facility of \$9 million for Phase I expired at the end of August 2003. The city's Department of Community Development capitalized the interest reserve at \$405,000. The credit facility of \$16 million for Phase II did not allow any new houses to be purchased after January 20, 2006. The loan maturity date of December 31, 2006 should allow sufficient time for the houses that have been acquired to be rehabilitated and sold. The Department of Community Development capitalized the second interest reserve at \$405,000. The amount of reserve reflected the amount and duration of the average outstanding construction loan, the weighted average annual interest rate and the estimated number of houses to be purchased.

The size of each credit facility was conservatively estimated, based on a cash flow spreadsheet that projected the maximum funds needed and when the maximum outstanding balance would occur. For example, the \$9 million credit facility for Phase I was based on these assumptions:

- 100 homes would be acquired, plus 30 owned by the city.
- Rehab costs would run about \$8,794,500 (based on the \$67,650 needed per house).
- Each property would be held about three months prior to being rehabbed.
- After being rehabbed it would take six months to sell the property (three months to market and three months to close on the sale).

For its second credit facility, however, the Rochester Housing Development Fund Corporation assumed that it would purchase 150 homes plus 35 transferred from Phase I and allotted \$82,235 per home for rehab costs.

The corporation's participating lenders make the financing structure possible by providing the organization with a non-revolving line of credit. The line of credit is secured by all of the corporation's single-family housing assets, including a loan-loss reserve and an interest reserve. The line of credit is structured as a participation loan, with JPMorgan Chase Bank as the lead lender. The participating lenders are banks, Enterprise, the Greater Rochester Housing Partnership, the city of Rochester and the local United Way. Funds are disbursed for each project on a pro-rata basis in order to minimize the overall interest rate.

The Rochester Housing Development Fund Corporation repays principle in increments as homes are closed and subsidy sources are funded. The cost of carrying interest on a property is included in its sales price, enabling the organization to reimburse the interest reserve upon closing. Each property is sold with a subsidy to make the house affordable to the buyer and because market conditions make the value of the completed home lower than the development cost. A city-funded loan-loss reserve is in place to repay banks for advances made on a home should the sales price combined with the amount of available subsidy total less than the amount borrowed for a given home.

Housing Acquisition

The city of Rochester is required to acquire all single-family HUD properties offered within the Asset Control Area. All properties are vacant. The acquisition cost of each property is based on an appraisal prepared for HUD and accepted by the city’s Department of Community Development. HUD then discounts the acquisition cost in accordance with the city’s ACA agreement. In Phase I of the Rochester program, the discount depended on the level of rehab the property needed. In Phase II, Rochester has benefited from HUD’s revised discount structure, which is based on the appraised value:

Appraised Value	Acquisition Price
\$0 - \$25,000	\$1 to purchase from HUD
\$25,001 - \$50,000	\$25,000 discount
\$50,000+	50 percent discount

After acquiring the properties, the Department of Community Development determines which will be demolished, which will be rehabbed by the city and which will be transferred to the Rochester Housing Development Fund Corporation for rehab and sale. The corporation receives the bulk of the properties. However, before any properties can go on the market after being rehabbed, they must first be offered to HUD’s Next Door Programs, which targets teachers and police officers.

For the properties being transferred to the Rochester Housing Development Fund Corporation, funding is borrowed from JPMorgan Chase (the lead lender) to pay the city. The city then pays HUD. The Rochester Housing Development Fund Corporation owns the properties and is responsible for their management until they are resold to low- to moderate-income home buyers.

Housing Rehabilitation

All houses are renovated prior to being sold through the Rochester Housing Development Fund Corporation. The corporation selects nonprofit housing developers to rehab its properties based on interest, experience and capacity.

Through the rehab and funding agreement, the developers are responsible for:

- Reviewing and accepting properties
- Scoping renovations
- Estimating hard costs for renovations (using Enterprise’s Housing Developer Pro[®] software) and soft costs, such as the marketing fees and carrying costs
- Preparing *pro forma* budgets and renovation schedules
- Bidding renovations with contractors (bid documents include a scope of work prepared using Housing Developer Pro)

- Submitting housing documentation to the Rochester Housing Development Fund Corporation (including *pro forma*, scope of work, schedule and affordability estimate)
- Overseeing the construction process
- Coordinating the final property inspection with the Rochester Housing Development Fund Corporation and the Certificate of Occupancy inspector
- Submitting final project documentation to the corporation (including the Certificate of Occupancy)

The Rochester Housing Development Fund Corporation is responsible for:

- Monitoring the construction and sales processes
- Establishing a pool of contractors from which the developers can choose
- Assigning properties to nonprofit housing developers
- Obtaining and packaging subsidy financing for the properties
- Approving hard and soft costs and dispersing funds borrowed from JPMorgan Chase
- Providing the developers with free development services as needed (including property inspections, management of the bidding process and development of the rehab scope and budget)
- Overseeing the sale of the properties
- Providing asset management during the time which the corporation owns the property

In accordance with the city's requirement that homes be rehabbed to a level that exceeds minimum code requirements, the Rochester Housing Development Fund Corporation requires developers to produce a standardized construction scope and specification. Because the rehab scope is predetermined in conjunction with the city and the developer, no architect is needed. The rehabilitation costs for an average property are approximately \$60,000 (not counting about \$15,500 in soft costs).

Marketing

The nonprofit developer of each property has the exclusive right to market the property during construction and for 21 days from when the Certificate of Occupancy is issued. If the developer delivers a sales offer to the Rochester Housing Development Fund Corporation during this time, the buyer has 45 days to obtain a mortgage commitment. Developers that sell the home during this exclusive period receive a marketing fee equal to 6 percent of the post-subsidy purchase price. Otherwise, the properties are posted in the Multiple Listing Service, a computerized listing of properties for sale used by realtors throughout the industry. Real estate brokers are used only if the nonprofit marketing agent is unable to sell the property.

Both developers and real estate brokers that market properties are responsible for:

- Marketing the house to the community (including developing and distributing marketing materials)
- Showing the house to interested buyers

- Obtaining financing pre-qualification or pre-approval for buyers from a mortgage lender
- Helping to prepare an offer for the purchase of the house
- Submitting the offer and deposit to the Rochester Housing Development Fund Corporation
- Assisting the buyer in applying for a mortgage and preparing for closing

Financing the Purchase

Home buyers arrange for their own permanent mortgage loans. Loans must meet program requirements to prevent home buyers from being taken advantage of by predatory lenders. The Greater Rochester Housing Partnership works with the Rochester Housing Development Fund Corporation to obtain subsidies to make the homes affordable to low- and moderate-income households. Most conventional lenders require prospective buyers to complete home purchase counseling in order to qualify for their first-time home-buyer and soft-second loan programs.

To close the gap between the sales price and the total development cost and to make the houses affordable for low-income first-time home buyers, the Rochester Housing Development Fund Corporation uses a variety of subsidies. Some subsidies, such as HUD funds for lead abatement, are tied to the property. Other subsidies, such as HOME funds through the city and state, provide soft second mortgages and are tied to the home buyers. Some subsidies are available only through certain nonprofit developers. The Rochester Housing Development Fund Corporation's project manager decides on the best mix of subsidies for each property after a buyer is found.

Organization and Service Area

Since its creation in 2001, the Rochester Housing Development Fund Corporation's mission has expanded beyond HUD's ACA program to address city-tax foreclosed properties and properties donated to nonprofit developers. This 501(c)(3) organization is governed by a nine-member board of directors comprised of representatives from: the city of Rochester, Enterprise, Greater Rochester Housing Development Partnership, the United Way, JPMorgan Chase Bank and the Community Preservation Corporation.

The corporation has an administrative contract with the city that it assigns to the Greater Rochester Housing Partnership, the administering organization, to cover two full-time staff—a project manager and a construction specialist. These staff members oversee the rehab process and provide assistance to the nonprofit developers. The Greater Rochester Housing Partnership also contributes other staff time, including its president (who acts as the Rochester Housing Development Fund Corporation's president), an office manager (who manages the database, arranges for utility service for the properties, coordinates closings with attorneys and manages paper flow) and a comptroller (who handles the financial tracking).

The corporation's activities are targeted to revitalization areas delineated in the city's ACA agreement with HUD. For Phase I it encompassed 11 zip code areas in the city of Rochester where HUD and FHA-foreclosed properties were concentrated. For Phase II, because HUD no longer allows losses on one property to be offset by gains on another, the city has selected more stable neighborhoods with higher property values. The geographic size of Phase II is about one-third the size of Phase I.

Rochester is a weak real estate market, characterized by a dwindling population, low incomes (a median income of approximately \$31,000), low property values (a median home sales price of approximately \$54,000), a high renter-occupancy rate (56 percent of all housing units), many homes with lead paint (more than 55 percent of the housing was built before 1939) and a disproportionate share of FHA properties. The city has a shortage of large units. Eighty percent of the homes are affordable to families earning the median income; however these families require subsidies to afford fully rehabbed homes.

Partners

The city of Rochester spearheaded the creation of the Rochester Housing Development Fund Corporation and has assumed the greatest financial risk. The Greater Rochester Housing Partnership staffs the corporation, manages home-buyer subsidy funds and acts as fiscal agent for the credit facilities used to purchase vacant houses. Enterprise is one of a group of participating lenders that provides funding for the program. Enterprise also assisted in the program's design and incorporation, helped to assemble financial partners and provides ongoing operating support and training for the nonprofit developers that rehab the properties purchased through the program.

The corporation’s participating lenders and their specialized roles are summarized below:

Participating Lender	Specialized Roles								
	Board Member	ACA Agreement	Lead Lender	Reserve Funds	Admin. Funds	Home-buyer Subsidies	Program Mngmnt.	Tech. Asst.	Home-buyer Mortgages
City of Rochester	x	x		x	x	x			
Enterprise	x							x	
Greater Rochester Housing Partnership	x				x	x	x	x	
United Way of Greater Rochester*	x								
Charter One Bank									x
Citicorp									x
HSBC Bank									x
JPMorgan Chase Bank	x		x						x
M&T Bank									x
Fleet Bank**									x
Key Bank**									x
*Martin Luther King, Jr. Memorial Housing Fund									
**Participated in the second credit facility only									

The city of Rochester’s Department of Community Development takes a subordinated position in each participation loan and capitalizes an interest reserve and a loss reserve for each credit facility. It pays for two full-time staff members. It is obligated under HUD’s ACA program to acquire all HUD-foreclosed single-family properties in the targeted Asset Control Area. In addition, the city’s HOME funds are an important source of subsidy for individual properties.

In addition to assisting in the organization’s incorporation, Enterprise has:

- Provided key technical assistance with the operational design
- Assembled partners for the financing pools
- Provided operating support to four local community-building organizations that focus on housing development through the Rochester Community Development Collaborative (NCS Community Development Corporation, Ibero American Development Corporation, North East Block Club Alliance and North East Area Development)
- Provided national public policy advocacy for HUD’s ACA program



- Offered training to nonprofit developers in the use of Enterprise's Housing Developer Pro software and on other aspects of the acquisition/rehab process (such as contractor negotiations, lead paint compliance, inspections and post-rehab issues)

The Greater Rochester Housing Partnership provides staff to the Rochester Housing Development Fund Corporation, manages the Affordable Housing Corporation and New York State Department of Housing and Community Renewal funds that subsidize prospective home buyers and serves as fiscal agent for the capital facilities. As fiscal agent, the organization is responsible for coordinating draw requests from the developer and submitting monthly requests to the lead lender.

Other key players contribute to the success of this model. The Rochester Housing Development Fund Corporation contracts with nine nonprofit developers, various marketing agents (nonprofit developers and real estate brokers) and a property management company.

Financing

The sources and uses of funds for Phase I, which used the Rochester Housing Development Fund Corporation's first \$9 million credit facility, are as follows:

USES OF FUNDS		SOURCES OF FUNDS			
		Line of Credit	Interest Reserve	Sale Proceeds	Loan Loss Reserve
Construction Period Expenses:					
Acquisition	\$1,500,030	\$1,500,030			
Title Fees	\$110,500	\$110,500			
Rehab Costs	\$5,850,000	\$5,850,000			
Real Estate Taxes	\$234,000	\$234,000			
Insurance	\$65,000	\$65,000			
Utilities	\$65,000	\$65,000			
Development/Marketing Fees	\$520,000	\$520,000			
Subtotal	\$8,344,530	\$8,344,530			
Interest Expenses	\$405,000		\$405,000		
Selling Expenses:					
Carrying Charges	\$39,000			\$39,000	
Warranty Fund	\$71,500			\$71,500	
Real Estate Commissions	\$390,000			\$390,000	
Subtotal	\$500,500	\$8,344,530	\$405,000	\$500,500	
Total Development Cost	\$9,250,030				
Loan Loss Reserve	\$800,000				\$800,000
Excess Sources Over Uses	\$655,470	\$655,470			
Total Phase I Project Budget	\$10,705,500	\$9,000,000	\$405,000	\$500,500	\$800,000
Source: Rochester Housing Development Fund Corporation, report by JPMorgan Chase, Community Development Group, Real Estate Lending, March 28, 2003.					

Program Status and Accomplishments

Between its inception in 2001 and February of 2006, the Rochester ACA program acquired and rehabilitated 267 homes, 202 of which were sold to first-time home buyers. As of February 1, 2006, 24 of the remaining 65 homes were under contract to be purchased, with 20 homes on the market and 17 under construction. Although made more challenging by HUD's ACA program moratorium, the Rochester Housing Development Fund Corporation has helped the city to meet its key objectives.

The city achieved its goal for selling its ACA program homes. The properties sold to the Rochester Housing Development Fund Corporation and subsequently rehabbed and resold to first-time home buyers enabled the city to reach its goal of selling 65 percent of the approximately 600 properties it was committed to acquire over two years under its ACA agreement with HUD. Without the corporation's involvement, the city would have fallen short of its goal; it only sold 53 percent of the properties directly to owner occupants.

The program has increased homeownership opportunities and reduced housing costs for low-income, minority families. Under the Rochester ACA program, home buyers have been primarily low income, minority and female. The average income of the home buyers has been 57 percent of the Rochester area's median income (\$31,300 for a 4-person household). Moreover, most home buyers have been minority households (46 percent African American, 38 percent Latino, 13 percent Caucasian and 2 percent Asian). Eighty percent of the households included children and 59 percent were headed by a single parent. The program also helps to reduce monthly housing payments for participants. At the start of the program, the Rochester Housing Development Fund Corporation estimated that a home buyer's housing cost would average \$527 per month; considerably less than the \$621 monthly rent for a typical two-bedroom apartment in the city.

The program supports efforts to revitalize and stabilize area neighborhoods. Committed homeowners help to stabilize their neighborhoods, and the Greater Rochester Housing Partnership reports a steady increase in sales prices and appraised values of properties that have been rehabbed, indicating that the program may be improving the local real estate market. Moreover, in a study undertaken with NeighborWorks, the NCS Community Development Corporation found that every 20 properties generate more than \$1.8 million in broader economic benefits, including home equity, lender, real estate agent and government revenue and home-related spending.

The program has increased the capacity of local nonprofit housing developers. By centralizing overhead functions, the Rochester Housing Development Fund Corporation has freed nonprofit developers from financing acquisition and construction, obtaining and managing financing subsidies, acquiring legal services and performing property management functions. NCS Community Development Corporation reports that the Rochester Housing Development

Fund Corporation has helped to accelerate local affordable housing production (except during HUD's program moratorium).

In the first five years that NCS rehabbed single-family housing with the Greater Rochester Housing Partnership, it completed 60 properties (most through Phase I), and started rehabbing properties through Phase II as well. Training has also enabled NCS Community Development Corporation to become one of the lead agencies in using Enterprise's Housing Developer Pro software. This has enabled the organization to improve its own rehabilitation specifications and provide spec-writing services to other nonprofits. As a result, NCS Community Development Corporation generated additional revenue that enabled the organization to retain staff during the production slow-down under HUD's ACA program moratorium.

The program has created Community Reinvestment Act credit and residential mortgage opportunities for area banks. Banks have been eager to participate in the Rochester ACA program. JPMorgan Chase estimates that an additional \$13 million could have easily been raised for the program's first credit facility if it had been needed. The second facility was increased to \$16 million, retaining all Phase I participating lenders and adding Fleet Bank and Key Bank. Phase I home buyers have closed on first mortgages totaling more than \$2.7 million, with public subsidy sources contributing an additional \$1.4 million. By March 2003, first-mortgage loans had been made by Charter One for \$927,688; JPMorgan Chase for \$572,000; HSBC for \$491,700 and other lenders for \$645,564.

Sustainability Features

Sustaining the Rochester Housing Development Fund Corporation's ACA program depends on the continued availability of vacant properties and public subsidies, as well as the continued participation of the private sector.

The high foreclosure rates in Rochester provide a steady stream of properties to the Rochester Housing Development Fund Corporation. The impact of higher prices and rising interest rates on the demand for rehabbed homes, however, is uncertain. Also unknown is whether or not subsidy funds, which have made the rehabbed homes affordable to low-income home buyers, will continue to be available. As long as the city continues to devote a large portion of its HOME funds to this venture, however, numerous sustainability features are in place, and the Rochester Housing Development Fund Corporation should be able to successfully continue its work.

One of the program's most important sustainability features is the experience and expertise lent by partner organizations. These organizations help to mitigate program risks for all involved. For example, development and completion risk is mitigated by such factors as the use of Enterprise's Housing Developer Pro software to create a clear scope of work; access to Enterprise's construction expertise; and board approval of the work scope and construction budget for each cluster of properties prior to disbursement of construction funds. Market risk is mitigated by

selecting revitalization areas where homes are attractive investments and by providing city subsidies to increase affordability and make ownership a more economic alternative to renting. Collateral risk is partially mitigated by discount acquisition prices and the fact that the Rochester Housing Development Fund Corporation holds the title to the properties.

Key Lessons

For communities seeking to replicate this model, the Rochester Housing Development Fund Corporation offers the following lessons:

Get input from community residents. Although the program has benefited from having key lenders on its board, the mayor still needs to fill two board seats designated for community residents. This will broaden the board's range of knowledge and perspective.

Carefully plan the start-up. Experience shortened Rochester's learning curve. Because the Greater Rochester Housing Partnership had previously operated a similar program on a smaller scale, key systems and procedures were already in place. Less experienced communities should plan on at least one year to set-up the necessary systems and resolve the following issues: a reliable source of properties; market research (to ensure properties can be sold); a financing system (identifying subsidies); and information management (refinements to the database and the recordkeeping system can occur during acquisition).

Hire staff members with a range of expertise. Financial management is critical, because the program entails small deals, each with many transactions. Construction expertise is needed because older housing stock often involves different building techniques and outdated floor plans, and developers need to understand how to make the floor plans more functional.

Design the program based on the organization's capacity. Involving many small nonprofit developers, although successful in Rochester, is administratively difficult and may not be replicable in most cities. In addition, unequal lender participation was administratively burdensome for the Rochester Housing Development Fund Corporation and its lead lender; equal shares among lenders would be better. Experience also proved the first loan loss reserve to be excessive. Other communities are advised to calculate the interest reserve at the time of closing based on projected rates, average outstanding balance and the number of homes to be renovated.

Carefully determine the amount of funding necessary. City officials warn of the substantial costs associated with the program, particularly now that HUD has disallowed taking a portfolio approach. The fact that each property must now stand on its own financially requires substantial financial resources to subsidize every house in an environment

like Rochester, with its old housing stock, low market values and wide appraisal gaps. Other communities are advised to conduct market research and project how long the program will operate. For example, Rochester ensured that funds were available to operate the program for two years.

To determine the program length, carefully delineate the Asset Control Area (which can be expanded but not reduced); determine available funds; use HUD historic data to see how many houses the city will likely acquire from HUD and apply the discount structure. Expect to put more funds into the program where property values are low. Then, estimate the typical rehab scope and determine the funding gap. Because HUD restricts the home buyer's purchase price to the lesser of market value or 115 percent of total development cost, if Rochester nets money from the sale of a house it's only about \$3,500. Some of the homes, however, net no profits. Run the numbers for many sample models to see which are workable, and consider starting with single-family homes only.

Plan for administrative costs. In addition to the Rochester Housing Development Fund Corporation's and the Greater Rochester Housing Partnership's administrative costs, Rochester's initial ACA program cost an estimated \$250,000 per year for city staff, supplies and software to interface with HUD's systems, plus \$100,000 per year for advertising. Because HUD requires but does not pay for home-buyer counseling, Rochester piggybacks with existing home-buyer counseling programs. Other costs borne by the city include property management services and brokers to market properties.

Be prepared for financial audits by HUD. HUD requires that quality control mechanisms be set forth in a business plan and a quality control plan, which are incorporated into the city's ACA agreement. An organization implementing an ACA program must be well prepared for thorough audits and unexpected requests from HUD.

Consider directly involving nonprofit developers in the inspection process. Although the city and the Rochester Housing Development Fund Corporation are the entities HUD holds accountable under its ACA agreement, at least one nonprofit developer advises other communities to give more control to their nonprofit developers for inspections. Nonprofits also would like more control over acquisition, given that a particular block may have a mix of foreclosed properties controlled by various owners, including HUD, the city, banks, estates and private owners.

Future Plans

Following HUD's ACA program moratorium, the city executed a new agreement with HUD in January 2004. Key features of the new program design are:

- All properties must be sold to owner-occupants at or below 115 percent of the Rochester area's median income.
- The city will only take title to one-unit properties in more limited revitalization areas (no longer zip code areas).

- The approximately 40 properties projected for direct sale in FY 2003/2004 must be rehabilitated by the city prior to disposition. The balance of properties (approximately 100 in FY 2003/2004) will be transferred to the Rochester Housing Development Fund Corporation for rehab and resale.

To accomplish these new goals, the Rochester Housing Development Fund Corporation established a second credit facility that replaced the original facility at maturity; 35 homes were transferred from the first facility to the second. This \$16 million loan pool enabled the corporation to acquire and rehabilitate 185 homes (including those transferred from the first credit facility). For the second credit facility, Fleet Bank and Key Bank were added as participating lenders, in addition to those from the first facility. JPMorgan Chase continues to serve as lead lender.

The Rochester ACA program will continue to operate. The deadline for drawing construction loan funds for the credit facility for Phase II was extended to January 20, 2006 and the time by which the loan funds must be repaid to December 31, 2006. To continue the Rochester ACA program, the city has executed a new contract with HUD. As of February 2006, a Phase III credit facility is expected to close this spring.

Enterprise Upstate New York

Since 1997, Enterprise has operated an office for Upstate New York that is located in Rochester. In addition to participating in the Rochester Housing Development Fund Corporation and providing technical assistance to the Greater Rochester Housing Partnership, the office administers the Rochester Community Development Collaborative, which provides intensive technical assistance, operating support and project funding to five community development corporations that are implementing housing and economic development projects in the city.

In Syracuse, Enterprise provides technical assistance to a \$31 million HUD-funded Syracuse Initiative, increasing nonprofit capacity, enhancing the city's ability to dispose of problem properties and improving neighborhood planning and revitalization. In 2004, Enterprise opened a satellite office in Albany to begin implementation of a citywide community development strategy that includes nonprofit capacity building assistance.

In Upstate New York, Enterprise also works with local child care resource and referral agencies and community development corporations to increase the availability of affordable, quality child care for low-income families by providing home repair and homeownership assistance programs to home-based child care providers, as well as technical assistance and project financing for the development of child care centers.

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