

Community Investments Vol. 9, Issue 1 Rural LISC: A Year of Rural Progress

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Statistics tell an alarming story about America's rural population. Nearly 17 percent of all Americans living in rural areas are below the national poverty line, and across racial, ethnic and age groups, these Americans are poorer and have less opportunity than those who live in metropolitan areas. While most of the rural poor are working, their wages generally remain at or near the minimum wage--too low to lift nearly half of rural families out of poverty. The rural poor also face a bleak housing situation. One in four poor rural households lives in housing considered substandard. Of these, nearly half must pay rent at levels totaling more than 50% of their monthly income. Moreover, the 1980's saw a surge of growth in the nation's non-metro counties, a trend that has increased the shortage of decent affordable housing in rural communities.

These statistics are indeed sobering, but there is good reason to maintain hope for America's rural communities. The number of rural-based community development corporations (CDCs) has been on the rise. Through their commitment to self-help development, rural-based CDCs have worked with communities to build new housing, install necessary infrastructure and create new businesses. Where many CDCs have had difficulty, however, is in raising adequate financial resources to pursue rural revitalization efforts. Banks have traditionally been hesitant to invest in rural community development projects because of the time and resources involved in

understanding rural markets and in underwriting and monitoring projects in less populated, secluded areas.

In 1993, Local Initiatives Support Corporation (LISC), the largest community development intermediary in the United States, created Rural LISC to address difficult rural community development issues. Rural LISC's goals are four-fold:

1. to focus greater attention on distressed rural communities and the CDCs working to transform them;
2. to educate policy-makers and the private sector, making them more aware and supportive of rural communities' capital needs;
3. to increase the output and impact of rural CDCs;
4. to demonstrate the value of investing in rural CDCs and transforming rural communities.

Rural LISC's four-year initiative, unveiled in November, 1995, will achieve these goals by mobilizing, motivating and involving an expanded set of private and public institutions as "investors" in rural community-based development undertaken by CDCs.

What is Rural LISC?

Rural LISC is a \$102+ million, national initiative designed to put rural CDCs on the map. It is a cooperative venture involving LISC and its major affiliates, the National Equity Fund (NEF) and Local Initiatives Managed Assets Corporation (LIMAC). LISC's other major partner is the Federal Home Loan Bank System which is making available \$200 million in below market interest rate loans for rural CDC projects. The loans are offered to FHLB member banks through the bank's Community Investment Program (CIP). LISC's financial and technical resources are being invested in and through 52 core CDCs and 16 CDC affiliates in 38 states and Puerto Rico. In addition, more than 400 CDCs will be served through Rural LISC's information

network¹ and its localized training opportunities. Core CDCs receive a projected average of \$30,000 annually to maintain and increase staff and management capacity. In addition, an annual average of \$600,000 in grants and recoverable grants is made available to core CDCs for project pre-development to help defray the costs of determining project feasibility, and for financial packaging of specific affordable housing projects and other income generating facilities. Another \$6 million annually in low-interest rate loans helps finance core and affiliate CDC predevelopment and development costs, including site acquisition, site improvements, construction and bridge loans.

Rural LISC is also helping initiate several special partnerships to bring additional technical and financial resources to the table. The Rural Home Loan Partnership, now in its second year, is a partnership between the USDA Rural Housing Services (RHS), the Federal Home Loan Bank System (FHLB), national and regional intermediaries, CDCs serving rural areas, and local financial institutions providing new affordable homeownership opportunities through long-term fixed-rate mortgages. The partnership links RHS Section 502 leveraged loan funds with FHLB Community Investment Program advances made to local member financial institutions. RHS takes a second position to the participating financial institution. Loan share is then negotiated between the local financial institution and RHS; however, if the financial institution takes 51 percent or more of the mortgage, it may sell its share on the secondary market. The CDC's role is to develop and market the homes, then counsel and qualify the buyers. Tested in nine states in 1996, the Rural Home Loan Partnership was so successful that it will expand to a total of seventeen states by late 1997.

Rural LISC is working to develop a similar partnership involving RHS, the National Head Start Association, the U.S. Department of Health and Human Services, the Federal Housing Finance Board, and the Federal Home Loan Bank System which will provide critically needed debt and equity financing

for early childhood facilities. Finally, LISC, NEF and LIMAC are working together with Key Community Development Corporation to syndicate special "one-time" HUD economic development tax credits that have been awarded to a Rural LISC core CDC, one of twelve urban and eight rural CDCs each allocated \$2 million in economic development credits. The CDCs have experienced difficulty in syndicating these credits.

These partnerships are important for a number of reasons. Primarily, they help generate much needed capital for rural communities; but they also represent the first time that the banking industry and USDA have worked with an intermediary such as Rural LISC to attack rural distress. These partnerships have and will play a critical role in the ongoing success of Rural LISC's programs.

Results So Far...

November 1, 1996, marked the first anniversary of Rural LISC's public initiative announcement in Washington, DC. Since its inception, Rural LISC has funded \$3.17 million in CDC capacity building grants, nearly \$1 million in predevelopment and other grants, and over \$7.5 million in low interest rate loans. These investments have helped participating CDCs develop 1,116 affordable housing units and 276,110 square feet of commercial, industrial and community facilities... all of which have generated new jobs in rural areas.

Equally significant has been the impact of Rural LISC's semi-annual seminars, three of which have been conducted to date. These seminars, which last up to a week, have provided CDCs with a forum for education and discussion of major funding and public policy strategies. Peer-to-peer networking and lasting professional relationships have been a natural and important outgrowth of these gatherings.

Rural LISC Activity in the 12th District

Rural LISC serves fourteen CDCs in the Federal Reserve Bank's 12th District. Among these are organizations undertaking their first development projects, as well as those that have been leaders in rural development for decades. Their performance has been outstanding. With support from Rural LISC, these CDCs are in the process of developing 290 units of affordable housing and 30,800 square feet of commercial, job-generating facilities. In addition, five CDCs are developing an additional 229 housing units with \$18.4 million in equity and bridge financing from LISC's National Equity Fund, including the California Equity Fund. Given this early indication of success and the tremendous potential of CDCs in the coming years, there will be plenty of opportunity for financial institutions to participate in rural projects. The following are just three examples of what banks are doing through and with rural CDCs:

- Sacramento Valley Organizing Community is developing an affordable homeownership project in Dixon, CA. The first there in many years, it will provide 71 homes for low-income families. Rural LISC provided predevelopment financing and is participating with U.S. Bank on construction financing.
- Northeast Washington Rural Resources is saving the historic Colville Opera House and Odd Fellows Hall. The project will serve as the downtown anchor, and will house social service agencies and private office space. Local government resources will cover a major portion of the permanent financing, however bank financing may be required to fill the gap. Rural LISC provided predevelopment assistance to the project.
- Almond Court, a 36 unit apartment complex developed by Self-Help Enterprises in Visalia, CA, received a Certificate of Occupancy in December, 1996. The project was financed with equity from the California Equity Fund and loans from the Bank of America Community Development Bank. Rural LISC provided site acquisition financing.

These are wonderful examples of what public/private partnerships can do. But CDCs and Rural LISC face some serious challenges in the West. CDCs must compete for increasingly limited government financing. Due to continuing pressure to balance the federal budget, there are a wide variety of cuts being made or contemplated in federal spending. Competition for tax credits is increasingly intense. Rural areas and small cities do not have the public entitlement resources of CDBG, HOME or tax increment financing to write down private loans. Continuing merger and acquisition activity among major financial institutions means that there are fewer and fewer banks with clear interests in specific rural markets.

Rural Communities Need Private Capital!

Rural LISC's first year of investments in rural communities throughout the 12th District prove that there are some strong and credit-worthy CDCs developing bankable projects in rural areas. The following are ways banks can participate in these projects:

1. In some cases, banks can and should invest in rural CDCs on a direct basis by providing grant support for staff capacity building and/or to cover CDC operating costs;
2. In other cases, banks may want to invest through an intermediary, such as Rural LISC or any other intermediary operating on a regional basis. By investing through an intermediary, the bank's investment is combined with other financial institution investments and is then passed through the intermediary to provide grants or low interest rate loans which support the local projects of core CDCs;
3. Banks may also invest in low income housing tax credits for projects under development by rural CDCs. Tax credit investments offer a generous rate of return through syndicators like LISC's National Equity Fund and NEF's state affiliates like California Equity Fund (CEF).

However your institution chooses to get involved, the Rural LISC Program can provide a critical link to rural development finance opportunities. A year of its results-oriented activity demonstrates that supporting rural CDCs and rural community development makes solid business sense.

¹ *In October, 1996, Rural LISC joined the World Wide Web. Visit our website at <http://www.ruralisc.org> for information about Rural LISC CDCs, their projects, rural grant and loan programs and resource guidance on rural community development. In coming months, the site will include policy updates, links to other Web sites and the "Stand Up for Rural America" survey.*

Rural LISC Core CDCs and CDC Affiliates in the 12th District

- Cabrillo Economic Development Corporation--Saticoy, California
- Chicanos Por La Causa--Nogales, Arizona
- Coachella Valley Housing Coalition--Indio, California
- Comité de Bienestar--San Luis, Arizona
- Housing for People (HOPE)--Hood River, Oregon
- Kuigpagmiut CDC--Mountain Village, Alaska
- National Farm Workers Service Center--Fresno, California
- Navajo Townsite CDC--Navajo, New Mexico (also serves parts of Arizona)
- Northeast Washington Rural Resources--Colville, Washington
- Rural California Housing Corporation--Sacramento, California
- Sacramento Valley Organizing Community--Sacramento, California
- Self-Help Enterprises (SHE)--Visalia, California
- South County Housing--Gilroy, California
- Umpqua CDC--Roseburg, Oregon

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About the Author:

Sharon Baranofsky is the Program Director for Rural LISC in the Western Region, overseeing program activities, including grant and loan underwriting and technical assistance provision, for 20 core CDCs and 5 affiliates located in 11 western states. Prior to joining LISC, she was Senior Planner at the Pratt Institute Center for Community and Environmental Development and Project Manager for Pratt's Community Outreach Partnership Center. Ms. Baranofsky's expertise in housing development grew from her ten year experience as the owner-manager of several renovation and new construction projects in rural northern California.