Scaling Social Enterprises: Flexible Responses for Neighborhood Stabilization

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The economic crisis has affected low-income and minority communities more severely than others, with falling home values, mortgage foreclosures, growing numbers of vacant properties, and high unemployment rates. This crisis has been distinguished by the micro-level, human impact of foreclosures and neighborhood distress, combined with business and macroeconomic impact and market failure. New social enterprises, led by community development nonprofits, have stepped into the breach. These groups have long histories of working with low-income and minority communities as well as an ability to address market failures with creative solutions. The best of these enterprises are building a track record of keeping families in their homes, putting people back to work, and stabilizing vacant properties.

Social enterprise models have been critical in the recent crisis because resources are few, the need is great, and the challenges are new. Since 2007, the market has changed rapidly and frequently. Significant federal policy response did not arrive until 2009; and in 2013, public stimulus has largely been exhausted even as foreclosures continue to affect millions. In this changing market context, social enterprises have the advantage of an inherently responsive and flexible approach to creating social impact through a self-sustaining, or at least highly efficient, business platform.

However, like all businesses, social enterprises face challenges in starting up, sustaining themselves, and growing to scale. Three enterprises demonstrate how entrepreneurial approaches have met some of the challenges of the recent crisis and have had a real impact at the human level. Boston Community Capital's SUN Initiative, Mercy Housing Lakefront's 180º Properties, and National Housing Trust-Enterprise Preservation Corporation (NHT-Enterprise) also demonstrate lessons learned about capitalizing, operating, and expanding a new enterprise.[1] Together, these examples show that a careful, analytical approach, appropriate capital, and the right partners are keys to meeting the demand to expand into new geographies and to grow the scale of their social impact.

1 All three organizations are engaged in a peer exchange community through the Housing Partnership Network's Innovations in Neighborhood Stabilization and Foreclosure Prevention Initiative, funded by the Citi Foundation.

The Importance of Capitalization and Operations Capacity

The right organizational capacity–both human and financial–is a key element in successful social enterprises. Working capital is critical to building an effective social enterprise, and many nonprofit social entrepreneurs still have a hard time accessing it. People and operating systems with the right expertise are also critical to nonprofits entering new industries.

Start-up, Working, and Expansion Capital

Mercy Housing Lakefront and The Cara Program

When Mercy Housing Lakefront (MHL) and The Cara Program (TCP) launched a new social enterprise, 180° Properties, in 2009, they began operations with a $400,000 start-up grant from the JPMorgan Chase Foundation. 180° Properties provides comprehensive property services, a positive community presence, and permanent jobs for low-income and disadvantaged workers. It trains workers, such as Darnella, to protect and maintain vacant homes. Darnella believes the company is turning around communities. "I know lots of people who appreciate what we do when we go into these properties and board them up, and clean them out. The neighbors, especially the more established ones, are so grateful." The program is also a turning point for the individual workers. "I made a 180 degree turnaround," Darnella explains. "I am not going back, no matter what. I came from the streets, rough areas, crime, and I grew up in it," she said. "I have four daughters and don't want them to grow up the way I did. I want them to prosper and do much, much, much greater things than I could possibly imagine."

The program relies on TCP's expertise in providing motivational coaching, case management, and life- and career-skills development to create a pipeline of entry-level applicants and the expertise of MHL in the housing market. As of January 2013, 50 employees were working to secure and maintain approximately 5,000 homes per year. Workers receive safety, equipment, and on-the-job training to clean, secure, rehabilitate, and maintain foreclosed homes. Crews change locks, install lock boxes, board up windows, remove debris, care for lawns, and perform various demolition and building chores. Individuals earn $12 to $13 per hour starting pay and full benefits, including long-term disability insurance.

When launching the program, both MHL and TCP insulated their core programs and mission from the risk of the new enterprise by not putting the organizations' existing assets at risk. Instead they began operations with the JPMorgan Chase Foundation start-up funds. They later raised additional funds for capital expansion costs from a succession of other philanthropic funders. In 2011 and 2012, nine funders from the philanthropic, financial institution, and nonprofit sectors combined to invest almost $1 million in expansion grants.

The plan was for 180° Properties to generate income for its parent organizations, a common driving force behind nonprofits' social enterprise endeavors. However, it soon became apparent that, although 180° Properties could break even on its operations by charging for its property maintenance activities, to meet growing demand, it would require ongoing reinvestment of the profit. To recruit, train, equip, and employ each three-person crew cost approximately $200,000 before the crew became economically self-sufficient. Current projections indicate that 180º Properties might reach a point of true self-sustainability in several years if it expands from the two cities in which it now operates to serve several major markets and if it continues to find a niche for its professional services in a constantly changing environment for property preservation and rehabilitation jobs.

MHL and TCP could have expanded the business faster and supported its expansion more efficiently if they had kept a modest operating reserve of approximately $250,000 to protect against seasonal and payment variations, while also maintaining cash on hand for budgeted operations. However, at the time, they could not afford to do so. They recently secured a low-interest working capital loan from the Housing Partnership Fund to assist in managing cash flow. It is rare, however, for nonprofits to have cash reserves available to support the development of a new enterprise. Even when nonprofits have adequate cash on hand, it is typically restricted for use in their core missions and programs.

Even though it is not yet self-sustaining, MHL sees a financial value in 180º Properties. The program does "more with less," making efficient use of limited subsidy dollars while allowing MHL to have a greater impact in distressed neighborhoods. MHL is seeking to raise an additional $1.5 million to employ 10 new crews. The crews will enable 180º Properties to secure, rehabilitate, and maintain more than 9,600 foreclosed homes per year. In all, the program will be able to secure and maintain more than 31,000 unique foreclosures and leverage $26 million in earned income over a five-year period–at a cost of just $47 per house in philanthropic support.

180º Properties projects that further expansion will enable it to generate profits that will not need to be reinvested in the business. As a result, 180º Properties is also exploring the potential for an equity investment of approximately $500,000 to $600,000 from a private or social investor to further accelerate and sustain growth.

Boston Community Capital's Stabilizing Urban Neighborhoods Program

Another way to capitalize a new social enterprise is the approach taken by the Boston Community Capital (BCC) Stabilizing Urban Neighborhoods (SUN) Initiative. This initiative purchases foreclosed homes or homes for which the loans are in default in order to keep families in their homes, like Delia.

"When I came to America in 1995, my goal was to live the American Dream," says Delia, a resident of Boston's Dorchester neighborhood, speaking through her daughter. "Owning my home is a big part of that." Delia operated a home day care business, which helped pay her mortgage. But the economic crisis hit her business hard, as the majority of her clients lost their jobs. She dipped into her savings to pay for her mortgage, but her savings were soon gone and she fell behind on her mortgage payments.

BCC met with Delia, reviewed her finances, and helped her understand what she could afford to pay monthly. BCC also got in touch with her lender, offering to purchase the property for its current market value. The bank agreed, and in July 2012, BCC's SUN Initiative helped Delia repurchase her home, reducing her monthly mortgage payment by 37 percent and her mortgage principal balance by 39 percent. "Working with SUN saved me," says Delia, "Today I have four grandchildren, who I am raising in this house. And that's my dream come true."

The SUN Initiative buys foreclosed or distressed homes from lenders at the price lenders can expect to receive at foreclosure–often as much as 50 percent less than the unpaid balance of the loan. After SUN acquires a home, it sells it back to the original owner with a new, affordable 30-year, fixed-rate mortgage. SUN loans help reduce homeowners' monthly housing expenses and mortgage principal balances, on average, by approximately 40 percent. As of June 2013, SUN had provided more than $60 million in new mortgages to more than 280 Massachusetts homeowners, stabilizing more than 400 households. SUN's parent organization, BCC, was founded in 1984 as a nonprofit community development financial institution (CDFI) and has made more than $900 million in community development investments.

Because BCC is a CDFI with a substantial track record, net worth, and a core mission of providing financing for community development, the organization was able to self-fund much of its new venture when it started SUN. Between 2009 and 2013, BCC contributed more than $5 million in seed capital and $10 million in debt from its loan fund to the initiative, which has leveraged more than $75 million in investment from individuals and institutions. BCC has raised additional philanthropic dollars as a supplement to support research and development, loan loss reserves, and closing costs for low-income individuals and families who would not otherwise be able to participate in the SUN program. The additional funds also support documentation and planning for replication.

However, BCC also faces capitalization challenges as it seeks to expand. BCC needs a secondary market source to recapitalize the initiative if it were to serve more customers and demonstrate a source of liquidity for investors. BCC has made significant progress toward addressing this challenge. In May 2013, it secured a $25 million investment from East Boston Savings Bank to support its expansion efforts, followed by an additional $10 million in August 2013. These investments, the first such transactions of their kind, are backed by revenue from a pool of performing mortgages SUN has made to homeowners who were previously facing foreclosure. These transactions, arranged by Zions Bank's Non-Profit Investment Banking Group, demonstrate that new, fair market loans to distressed homeowners can work for lenders and investors while keeping homeowners in their homes and providing them with a new affordable mortgage–the value proposition BCC set out to prove when it started SUN.

In addition to using the capital to support new mortgage loans as it expands SUN's model in Massachusetts, BCC is using these transactions as a model to raise additional funds for SUN on similar terms to support its expansion to other communities around the country hit hard by foreclosure. Community organizations and civic leaders interested in SUN's model have stated that the ability to raise long-term affordable loan capital has been a significant barrier to entry; BCC will use funds from its secondary market transactions as loan capital to support the launch of SUN in other states. This fall, for example, the organization entered Maryland, working with on-the-ground partners who identify foreclosed homeowners who may qualify for SUN. BCC underwrites the homeowners and provides mortgages using loan capital raised for SUN.

NHT-Enterprise: Energy Retrofits for Affordable Multifamily Developments

While not a stand-alone social enterprise, the National Housing Trust-Enterprise Preservation Corporation (NHT-Enterprise) provides another example of entrepreneurship and innovation. The organization changed the way it does business in order to tap into national utilities as a source of capital to retrofit affordable, multifamily housing to achieve energy efficiency, and thus reduce operating expenses for building owners. Although the programs have helped single-family homeowners to reduce energy costs, multifamily rental properties have been traditionally underserved.

NHT-Enterprise views energy efficiency as an important strategy for preserving affordable housing and community revitalization. High energy costs in existing multifamily housing make it difficult to sustain affordable rents. In subsidized properties, utilities are the largest operating expense in master-metered buildings, and the second largest in individually metered buildings. Controlling and reducing these operating expenses is needed to free up capital for maintenance, repairs, and other necessary improvements.

Mountain View Tower in Cumberland, Maryland, which provides affordable housing for low-income seniors, is an example of the program's impact. Built in 1977, it was not constructed to conform to modern energy codes. NHT-Enterprise redeveloped the property with significant energy efficiency upgrades. The Maryland Department of Housing and Community Development's Multifamily Energy Efficiency and Housing Affordability program (MEEHA) provided funding for the upgrades. MEEHA is funded by Maryland's investor-owned utilities. The energy efficiency improvements will maintain affordability for low-income seniors by lowering operating expenses.

NHT-Enterprise's engagement with the energy sector has led to the dedication of more than $40 million in private utility funding for retrofits of existing, affordable housing. NHT-Enterprise is currently pursuing its utility engagement work in eight states (Colorado, Minnesota, Illinois, Michigan, Ohio, Pennsylvania, Maryland, and Rhode Island) and the District of Columbia. NHT-Enterprise's approach has parallels to BCC's and MHL's experiences, particularly in that the organization operates in a new business sector and has strategically expanded its work, state by state.

Operational Capacity

SUN, 180° Properties, and NHT-Enterprise's energy work all differ in important ways from the core businesses of their parent nonprofits, and that distinction required the groups to adapt in various ways. An early adaptation was to hire or partner with people with industry-specific experience.

As did MHL and TCP in the property preservation business and BCC in the consumer mortgage niche, NHT-Enterprise faced a learning curve in entering an established industry of utilities and energy advocates. Initially, it had assumed that it would be easy to convince utilities that retrofitting an underserved sector was in their self-interest. NHT-Enterprise's first meeting with a number of nonprofits and utilities in California, however, proved otherwise, largely because they had not first engaged with energy efficiency organizations prior to meeting with the utilities. After almost four months of little progress, NHT-Enterprise began to understand that gaining the trust of utilities meant that it first had to meet with energy policy stakeholders–not the housing developers with which it was accustomed to dealing. That shift was transformational. Although utilities were not necessarily always in agreement with energy organizations focused on lower-income households, the utilities knew and trusted these organizations. After gaining the respect of the parties involved, NHT-Enterprise was able to bring in local housing developers to demonstrate the effect of energy retrofits to existing affordable housing.

Throughout its efforts, a series of partners has added to NHT-Enterprise's own organizational capacity, expertise, and relationships. This has allowed it to pave the way into a new industry. NHT-Enterprise now conducts its work with key national partners including the American Council for an Energy-Efficient Economy (ACEEE), the National Consumer Law Center, and the National Resources Defense Council.

MHL and TCP similarly recognized the need to broaden their expertise to be successful in developing a new venture. Both added management capacity, realizing that the capacity of organizations designed for another purpose cannot necessarily be efficiently deployed to support a social enterprise start-up with a different business model. In 2011, 180° Properties hired a new CEO with significant home building experience as well as dedicated administrative support staff. One of the CEO's first challenges was to implement new operational systems that could support high-quality services delivered efficiently and at scale. 180° Properties has now developed scalable job costing, billing, project management, and quality control systems to manage the work of scattered crews. Crews use cell phones and laptops with wireless connections to access work orders, upload status reports and property photos, and receive instructions while working remotely throughout the region. 180° Properties is still working to build an ideal team to manage its evolving business. For example, it needs to implement separate sales and collections teams so that staff recruiting new clients to the firm are not also responsible for managing cash flow and receivables from those clients.

For BCC, one key to its success was its mortgage brokerage affiliate, Aura Mortgage Advisors. In the mid-2000s, BCC recognized the opportunity to apply its lending expertise and community development mission to provide affordable, fixed-rate mortgages to low-income residents, and founded Aura. Aura eventually became licensed as a mortgage lender and became a key element in the SUN Initiative. Without that lending arm, it would have been much more difficult to get SUN off the ground. But BCC also recognized the need to reorganize its operations with the right staffing and processes. Specifically, BCC hires management and staff who combine a deep understanding of the mortgage finance business with an entrepreneurial spirit and dedication to the population they serve. BCC has also bolstered its staff by hiring consultants with expertise in compliance, underwriting, and strategic communications. In order to assure consistency in values and alignment of SUN's work and business strategies with BCC's long-term vision and direction, BCC's CEO functions as president of SUN, playing an integral role in management, strategy, capitalization and business development. These staffing changes led to a 300 percent increase in lending from 2011 to 2012.

The SUN Initiative is also complex. Because of its individualized approach to preventing displacement for families in foreclosure, it requires a high degree of customization and manual underwriting. In addition, it operates in a regulated, and quickly changing, environment. To manage this complexity, SUN has developed a set of flow charts, check lists, reporting and analysis systems, and staff training and certification procedures. However, it also recognizes that the operational demands of foreclosure relief and mortgage lending will continue to be resource-intensive. For example, it puts all potential applicants through two underwriting processes. The first stage ensures that the current property value and borrowers' ability to pay can support a successful transaction that will also support SUN's operating costs. The second underwriting process begins at the conclusion of a successful negotiation with the seller of the property, which can take months to accomplish.

Adapting to a Changing Environment

Another challenge for all of these enterprises has been adapting to changes in the housing market and the evolution of the foreclosure crisis. 180° Properties, for example, has altered its program focus as the foreclosure crisis in its home market of Chicago has progressed. At first, as banks began to accumulate vacant REO properties, 180° Properties deployed temporary workers participating in a training program as a way to get immediate work experience doing lock changes, clean-up, and basic maintenance. Eventually, as the inventory of REO grew and neighborhoods became more distressed, properties remained vacant longer and needed more substantial repairs, light rehab, and eventually full rehab. 180° Properties realized that the employment opportunities it could offer were no longer temporary, low-skilled jobs, but instead more substantial, permanent jobs that required training and offered real professional development and skill-building opportunities. Now, as the real estate market slowly recovers, private equity firms have begun to purchase, renovate, and rent foreclosed homes. These large-scale investors, with properties widely scattered throughout entire regions, have helped create a new market for 180° Properties, which has the potential to drive further growth. With each change in the market, 180° Properties has responded by changing its operations, marketing, and partners.

BCC, too, has created a highly flexible business model that can adapt to market opportunities. For instance, when acquiring the properties it intends to sell back to the original, underwater homeowner, the organization will purchase mortgages or properties, pre- or post-foreclosure. While BCC notes that banks can avoid the costs of foreclosure and eviction by selling distressed loans or properties to BCC prior to foreclosure, nearly all of SUN's initial transactions were negotiated after foreclosure with the REO departments of banks. Today, roughly half of its transactions are closed as short sales, while the rest are completed post-foreclosure, but before the original homeowner is evicted. To accommodate sellers' requirements, BCC has also been flexible in its approach to resale of properties to homeowners. Some lenders require that BCC hold a property on its books for up to six months before reselling it to the original homeowner. BCC addresses this challenge by signing a purchase and sale agreement with the homeowner, charging monthly fees equal to the monthly mortgage payment, plus $100 per month to cover water and sewer costs, for the "hold" period.

BCC also built flexibility into its business model to ensure that SUN could be self-sustaining at different levels of business activity. If the organization were to stop lending at its current size, the income from existing mortgages would be able to support the ongoing operating costs associated with maintaining them. (BCC would no longer need an origination, processing, underwriting, and closing function and could reduce staff accordingly.) On the other hand, if BCC expands the SUN Initiative, the businesses would reach operational break-even at approximately $150 million in mortgages, and the ongoing operations of the business would be self-supporting for continued growth. The flexibility of this model is important because of the changing nature of the markets in which BCC operates. In developing a program focused on mitigating the impacts of the housing foreclosure crisis, the organization needed a model that addressed the risk of not knowing how long that crisis would last.

In addition to adapting to circumstances in these ways, BCC has taken a proactive approach through policy change. After finding that several bank sellers required signing an "Arm's Length Affidavit," stating that the purchaser will never sell or rent the property to the original homeowner, BCC worked with the Massachusetts legislature to provide an exception for 501(c)(3) entities.

NHT-Enterprise adapted its engagement with utilities by collaborating with unusual partners in the eight states in which NHT-Enterprise is working with utilities. Rather than working directly with nonprofit housing organizations, NHT-Enterprise chose to work with local energy efficiency partners who were trusted by the utilities. Those local energy partners facilitated the initial and follow up meeting with utilities and helped explain how the utilities could increase funding for energy efficiency retrofits to satisfy the utility energy goals. This led to significantly increased funding for energy retrofits of multifamily housing in six of the eight states.

Managing the Pull of Expansion

SUN, 180° Properties, and NHT-Enterprise are being asked to expand their efforts into new markets to create more social impact. However, they all recognize that expansion requires a strong business model, partners with the right capacity, and political/community support.

BCC has chosen a communications-focused strategy, sharing its model and shaping the environment for potential replication of its model. BCC, from the start, has seen SUN as an effort that could be applicable in markets nationwide. BCC has received inquiries from nonprofit organizations, advocates, and public officials across the country who are interested in the approach SUN has taken. SUN has responded by expanding its reach in Massachusetts. It has also engaged in initial conversations with a wide range of potential partners who would like to franchise or replicate its model and moved forward with an expansion in Maryland in the fall of 2013. BCC's message to its partners in Maryland and in other locations reflects the organizational, regulatory, and financial challenges of launching SUN, alongside the fundamental mission and value proposition of the concept.

BCC has implemented two additional strategies for expanding SUN's reach, indirectly, beyond the borders of Massachusetts. First, it has published a detailed blueprint, "From Our Community to Yours: A Blueprint for Delivering Foreclosure Relief to Your Community," that walks readers through the details of every step of the SUN business model, including its marketing strategy, operational backbone, procedures, and legal structures. In addition, BCC has compiled a toolkit of even more detailed resources–marketing items, intake forms, applications, underwriting guidelines, financial templates–that are available on a limited basis to those who are serious about replicating the program.

It is also working to change the conversation about foreclosure, distressed homeowners, and neighborhood stabilization nationwide in order to change the environment in which SUN and related efforts operate. In a series of national media appearances and op-eds, BCC staff members have argued that the real and fully substantiated need to stabilize households and neighborhoods should not be subordinated to the unsubstantiated concerns of financial institutions about moral hazard (which discourages or prohibits investors from forgiving the principal balances on underwater mortgages, or from re-selling a home to the original owners at a lower rate). BCC has also advocated for policies that balance protection for low-income homeowners and communities with ensuring the ability of financial institutions to make good loans and provide low-income consumers with access to credit.

180° Properties has pursued expansion more directly but is cautious about entering new markets. Since their initial positive experiences in the Chicago market, MHL and TCP have been interested in expanding to fulfill the mission of 180° Properties to create jobs while protecting homes and communities. In addition, 180° Properties recognizes potential benefits to its business model from increased economies of scale. The enterprise has now expanded into one new market, Milwaukee; this experience has reinforced 180° Properties' understanding of the importance of three key precursors to expansion: philanthropic support, community partnerships, and business commitments.

Although 180° Properties could support the expansion of services to northern Illinois and Indiana, it could not efficiently and effectively deliver services to Milwaukee from Chicago. Expanding to Milwaukee would require greater infrastructure and planning than was involved in the previous growth phases in Chicago. The team determined that services would only be offered in Milwaukee if they were desired and requested by local community groups. Further, 180° Properties would not begin to hire staff, buy equipment, or establish an office in Milwaukee until philanthropic support was secured to cover the start-up costs. Finally, it was determined that the expansion would only be undertaken after one or more business clients had been secured.

All three key factors–philanthropic, partnership, and business–were aligned through the efforts of Common Ground, a coalition of Milwaukee churches and community organizations. Common Ground invited 180° Properties to Milwaukee to address the foreclosure crisis, helped identify neighborhoods and properties that needed remediation, provided bank contacts as potential clients for the business, helped recruit and refer candidates for employment, and helped secure philanthropic support. In addition, 180° Properties established a partnership with Goodwill to identify candidates and provide career skills training. 180° Properties was able to secure a significant contract with a major bank to protect and maintain vacant properties owned by the bank, and made the decision to move forward. Eleven Milwaukee-based staff were identified, hired, and trained by July, 2012. In the first six months of operation, 439 homes were secured and maintained. Since then, to mitigate the risk of relying on one major customer, 180° Properties has been working to expand and diversify its customer base in the region.

NHT-Enterprise's campaign for utility investments in affordable housing adds an additional perspective to strategic expansion. NHT-Enterprise opted for an explicit state-by-state approach to replication and expansion as it considers targeting four additional states and promoting its model at industry conferences and events. NHT-Enterprise's initial success in unlocking more than $40 million in new private-sector resources in six states–with more on the way–has attracted attention. More than 20 state housing finance agencies, and many more affordable housing nonprofits and energy groups, have met with NHT-Enterprise and hope to bring its efforts to their states.

Having learned from its initial foray into the energy efficiency policy field, NHT-Enterprise is strategic in choosing markets for expansion. Two elements are crucial for success. First, a local, fair-minded and trusted energy efficiency stakeholder or friend of the utilities must be in place to facilitate additional meetings. Second, securing the engagement of a state housing finance agency with a pipeline of properties makes it easy for the utilities to participate and increases the chance of program adoption. NHT-Enterprise has raised $570,000 in grants to pursue its campaign in eight states to date. As it identifies opportunities with the critical elements in place, it sees potential to continue leveraging this relatively small philanthropic commitment into a significant new resource for affordable housing.

NHT-Enterprise has learned that understanding who has the right relationships, both formally and informally, is a critical first step in advancing successful enterprises in a new location. NHT-Enterprise has been flexible in its approach to building relationships, guided by individual state contexts. In Michigan, NHT-Enterprise retained Martin Kushler from ACEEE, a Michigan resident with strong existing relationships, to speak with utilities on its behalf. In Maryland, it worked with the State Department of Housing and Community Development, which has a successful track record of providing weatherization services for low-income residents. In Minnesota, NHT-Enterprise retained Minnesota Green Communities; in Pennsylvania, the Pennsylvania Utility Law Project. Trusted local contacts were then able to introduce nonprofit housing-sector leaders in Michigan. Together, this strategy made it easier for the utilities to participate; they did not have to learn complex housing finance issues and instead could work with trusted intermediaries.

In Maryland, part of the success was attributable to the state housing department's experience administering housing programs. This experience facilitated targeted outreach and streamlined project execution. Property owners could submit one application for all their financing requests. Existing owners of rental projects who were seeking funding only for energy efficiency grants were also eligible to participate. To generate sufficient capital to expand the program, NHT-Enterprise joined Maryland's Department of Housing and Community Development in urging the Maryland Public Service Commission to direct utilities to provide funding. The Commission agreed, which produced an investment of $21 million in private utility capital.

Conclusion

BCC, MHL, and NHT-Enterprise have each created a successful entrepreneurial response to the foreclosure crisis. As a result of their work, communities have received new resources to improve the lives of underwater homeowners, underemployed job seekers, neighbors in areas with vacant properties, and tenants seeking affordable housing. Now established, their innovations have the potential and the staying power to sustain housing stability and improve people's lives even beyond the crisis.

As new social enterprises, SUN and 180° Properties, as well as NHT-Enterprise, have wrestled with challenges of start-up and early growth, including:

Start-up and operating capital. The SUN Initiative benefited from the substantial resources of an established CDFI. A strong organizational net worth has allowed BCC to invest more than $15 million in debt and equity to build the operating capacity needed to enter a particularly complex corner of the home mortgage business. 180° Properties' experience is perhaps more typical. Even though its two founding organizations have strong capacity to meet their core missions, 180° Properties had to raise ongoing philanthropic capital, now totaling more than $2 million, to build its operational capacity for this new business. Capital resources for start-up remain a challenge for most nonprofit organizations that start social enterprise affiliates, and grant funding is one of the very few sources available.

Expansion capital. 180° Properties continues to raise capital from philanthropic supporters to expand its capacity. BCC is just beginning to reach the tipping point for financially sustainable growth, with its recent secondary market transactions for SUN. In both cases, true financial sustainability can take years to achieve, particularly as an organization seeks to expand its programming and geographic reach, which requires ongoing reinvestment of income. The idea of generating income that is channeled back to the parent organization may be unrealistic, at least during the growth phase of a business. At the same time, as described above, BCC has shown that is possible to build a model that can be self-sustaining at multiple levels of business activity, and the social enterprises profiled here have made efficient use of the resources available to them, relative to other nonprofit models.

Leveraged capital. As a social entrepreneurial organization in the community development finance sector, NHT-Enterprise sees even greater potential for leveraging energy-efficiency grant dollars with debt. Utilities are generally prohibited from or reluctant to take on lending risk themselves; however, they are very interested in leveraging the impact of their dollars. Because CDFIs who focus on energy lending require significant loan loss reserves to manage their risk, NHT-Enterprise hopes to convince utilities to provide grants for loan loss reserves in a few key states. Based on its experience with its initial campaigns, it is seeking philanthropic support to add to its capacity to pursue this new strategy.

Operational capacity. Both SUN and 180º Properties have recognized the need to hire staff with industry-specific expertise to smooth their entry into new businesses. Given this, existing leadership must play an active role in ensuring consistency in values and alignment with the overall organization's long-term direction. Creating scalable systems to support growth and manage complexity has been a focus for both enterprises.

Adaptation to change. Because they were founded in response to a crisis, both 180º Properties and SUN are embedded in a changing market and policy environment. 180º Properties has adapted its strategy to meet the needs of a changing customer base and market conditions, and now is adapting to the market trend of investor-owned rental portfolios. SUN built a model that can support itself at multiple levels of lending activity in order to accommodate changes in the housing market. In addition to shifts in foreclosure activity, SUN has faced an ever-changing set of mortgage regulations as consumer and housing finance reforms proceed. It has taken a proactive role in advocating for state-level policy change to support its core innovation of re-selling a home to the original foreclosed or distressed homeowner and reducing principal.

A major question facing these entrepreneurs is how to find the right partners and develop the right relationships to continue growing and adapting to a changing environment. In the sphere of social innovation, social capital is almost as important for expansion as financial capital. Trusted relationships with funders, with community organizations and local officials, with individual households, and institutional clients are not easily replicated in new locales. Partners who provide important capacity and complementary skills are not always available elsewhere, and cannot always grow in scale at the potential pace of a social enterprise strategy.

All three organizations have adopted the following strategies for managing the challenge of expansion to new markets.

The right partners. Successful social enterprises rarely happen in a vacuum. BCC, 180º Properties, and NHT-Enterprise have all discovered that having the right partners–in the philanthropic, business, and community sectors–is critical to launching new ventures, particularly in new markets. All three ventures have invested resources in building and maintaining these relationships in order to expand their businesses.

180° Properties enters a new market only if it is invited by a community with partners who could provide political support, philanthropic connections, the on-the-ground job training and employment referrals it depends on, and a strong customer base. NHT-Enterprise chooses states to target on the basis of available, trusted partners to work with utility companies and an engaged housing finance authority to connect funds with projects.

Communications and public relations. BCC paves the way for expansion by documenting and communicating its approach in its blueprint document. It has also engaged in national-level communications work to address the underlying barriers to the SUN model, such as investors' concerns about moral hazard in making principal reductions. NHT-Enterprise, similarly, has documented its energy-efficiency funding strategy in a series of reports and publications intended to raise interest in and build support for the concept.

As they enter a new phase of response to the foreclosure crisis and community development challenges, SUN, 180° Properties, and NHT-Enterprise are making promising inroads in capacity-building and raising the right kind of capital to sustain and expand their impact. Their careful, analytical approach to expanding their reach–directly and indirectly–demonstrates both the challenge and the potential of social enterprises in responding to crisis.

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Cindy Holler is President of Mercy Housing Lakefront. In this role, Ms. Holler oversees real estate development and operations for one of the largest and most innovative community development organizations in the Chicago and Milwaukee regions. Holler has held previous executive positions with Fannie Mae, South Shore Bank, and Catholic Charities.