Small nonprofits throughout Maine share the goal of creating safe, affordable housing—but how do they get the capital they need to fulfill that important mission? Enter the CDFI.

Community Development Financial Institutions are financial intermediaries that give underserved people (and the organizations that support them) the tools required to build wealth, homes, or the community facilities they need to improve their lives.

The Genesis Community Loan Fund is a statewide nonprofit that began in 1992 and was certified as a CDFI by the U.S. Treasury Department in 2001. The Genesis Fund provides financing with favorable terms for property acquisition and rehabilitation, construction, and facility improvement, as well as loans for permanent financing and working capital.

According to Executive Director Bill Floyd, the Genesis Fund’s most important role is to help groups fill the gaps between traditional sources of financing and their funding goals.

“A lot of these nonprofits have great management and good cash flow, many times what they don’t have is the capital,” said Floyd.

Habitat for Humanity/7 Rivers Maine in Mid Coast Maine is just one example. The nonprofit wanted to build as many affordable homes for families to own as possible, but capital constraints limited development to only one or two homes per year. After working with the Genesis Fund, they found a creative solution: the Genesis Fund bought Habitat’s loan portfolio, which gave Habitat the working capital they needed and created a long-term sustainability strategy to build more houses annually.

Since its inception, the Genesis Fund has made more than $28.4 million in loans to 207 projects in Maine. A majority of these loans have financed the development or improvement of more than 1,250 units of affordable housing for the state’s most vulnerable populations. In the past five years, the Genesis Fund has realized an 18% growth rate in their lending. They offer a variety of loans, including gap financing, bridge loans, subordinate financing, loan participation, and financing for the Maine Historic Tax Credit.

In addition to providing loans, the Genesis Fund also offers education, training, and technical assistance on a low-cost (and sometimes no-cost) basis. Technical assistance can mean everything from helping an

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Jan McCormick laughs when she remembers the pigeons crowding the windowsill outside the tiny office she walked into at NNEHIF 16 years ago. Since then, the asset management division she started has matured into a tightly coordinated team responsible for overseeing the host of properties NNEHIF manages in its 21 equity funds. McCormick and her team maintain close ties with NNEHIF’s affordable housing partners, a network that has had a profound impact throughout Northern New England.

1) How does your position as Director of Asset Management for NNEHIF differ from your counterparts’ role in conventional real estate?

Conventional developers aim for a return on their investments through annual income and the appreciated value of their properties. Though those sources of revenue certainly play a role in the profitability of our low-income housing tax credit (LIHTC) portfolio, they don’t represent the prime inducement for our investors. Instead, we focus on the operation of our properties to deliver expected investment return, especially the federal tax credits that represent the biggest financial benefit for them.

2) Traditional real estate portfolios diversify holdings to mitigate risk. Does that strategy apply to NNEHIF’s holdings? If so, how do your duties change to manage different categories of properties?

Our projects vary depending upon geography and development partners, but also by the types of properties we create. These include family-oriented workforce housing, elderly housing, and services-enriched housing for special needs populations. The latter is often the most time-intensive due to the requirements of this particularly vulnerable sector of tenants, but serving their needs may represent the best fulfillment of our affordable housing mission.

3) Enhancing long-term vitality of your assets is largely dependent on the property managers who maintain them. How do you work with them to protect your holdings?

Our property managers are responsible for both the physical care of our properties and the verification of that care through the regular financial and status reports they issue. They must also fulfill certain duties to maintain compliance with the properties’ LIHTC status, and submit reports on those activities. We analyze this information quarterly to monitor operating success and compliance. But we also perform annual site visits to get a real-world read on the people and properties behind the numbers.

4) How else do you work to meet LIHTC compliance requirements?

Compliance duties are led by an asset manager and shared among staff, but we also outsource compliance monitoring and provide a compliance consultant free of charge to our developers and property managers. That service supports the candid relationships we enjoy with these professionals. We’re fortunate to work with colleagues who help us identify and solve problems before they escalate.

5) Does that collaborative spirit extend to your other partners as well?

Absolutely. Effective asset management is proactive in nature and depends on a dedicated team to keep things running smoothly. We hold our assets for 15 years, which is a long tenure for real estate. Our management is a dynamic process made especially complex by the tax regulations in our industry. There are also a multitude of players involved. But one of the advantages of being a local LIHTC syndicator is the power of those relationships. These are people we’ve come to know and trust to work with us to get the job done.

6) What’s changed since you first walked into your office 16 years ago?

A lot! Beyond the growth of our assets and the funds that power them, our department’s support of NNEHIF’s advocacy mission has been especially rewarding for me. Our expertise in asset management has granted us incredible insight into the complex requirements of our industry and the needs of the population it serves. Ultimately, we’re working to safeguard not only the value of our holdings, but the lives of the people they house. I can’t think of a better return on our investment than that.
Community Capital (Continued from the cover)

organization to develop project plans and understand commercial real estate, to getting access to state and federal funding through grant writing and other means.

“I think sometimes folks have trepidation working with various government agencies, but we’ve got a lot of experience in that,” explained Floyd. “Sophisticated development corporations know how to figure out timing and logistics, but nonprofits don’t have that expertise.”

Genesis has provided technical assistance to more than 215 community projects. The Tree Street Youth Center, for instance, turned to the Genesis Fund for the professional knowledge and guidance they needed to buy their building in downtown Lewiston. Tree Street now has a safe, permanent home where they can provide vital programming for children and families in the community. The Genesis Fund recently helped Tree Street to secure a grant for its After School Program, which serves more than 125 youth in Lewiston-Auburn.

Whether closing a $60,000 loan to the Knox County Homeless Shelter, or writing and deploying a $249,900 rural development grant to provide technical assistance to Native American tribes and seniors on island communities in Maine, the Genesis Fund collaborates with a number of partners, including the Northern New England Housing Investment Fund (NNEHIF).

The Genesis Fund works with NNEHIF on a range of projects, their level of partnership is dependent upon the project’s specific profile. Many times, the two companies participate in lending, sharing capital and risks to broker deals that neither could attempt alone.

NNEHIF was the lead consultant on the expansion of Park Danforth, a private nonprofit senior living facility in Portland. In time, NNEHIF realized that there was a gap in financing. The Genesis Fund stepped in with a loan commitment of up to $1.5 million, their largest loan to date.

As the Genesis Fund continues to grow, so too does the need for affordable housing and community facilities throughout Maine. Fortunately, CDFIs like the Genesis Fund are ready to meet those needs in creative, collaborative ways.

### GENESIS LOAN PORTFOLIO FY 2015

- **Supportive Housing and Services for People with Disabilities** 17%
- **Work Force and Family Affordable Housing** 28%
- **Affordable Housing for Elders** 14%
- **Community Facilities** 18%
- **Mobile Home Cooperative** 15%
- **Habitat for Humanity Home Loan Portfolio** 8%

Source: Genesis Community Loan Fund

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**INDUSTRY NEWS BRIEFS**

**HOUSE APPROVES T-HUD FUNDING BILL**

On June 9, the U.S. House of Representatives voted 216-210 to pass the FY-2016 Transportation-HUD spending bill (HR 2577). The legislation includes funding for the Department of Housing and Urban Development, Department of Transportation, and other related agencies through the end of the fiscal year. The bill, which the Obama Administration has threatened to veto, cuts critical investments in infrastructure and housing and community development programs.

http://1.usa.gov/1GtMwyA

**BIPARTISAN TASK FORCE SEEKS TO HELP SENIORS**

The Bipartisan Policy Center’s (BPC) Health and Housing Task Force was launched in March to develop policies that improve the lives of the nation’s aging population. BPC believes that stable, affordable housing can improve health outcomes and reduce healthcare costs, especially for those who want to age in place.

http://bit.ly/1eqQim2

**ECONOMIC STUDY EXAMINES LACK OF AFFORDABLE HOUSING**

A study from economists at the National Bureau of Economic Research (NBER’s) says that the lack of affordable housing in major metropolitan areas costs the U.S. economy an estimated $1.4 trillion each year in lost wages and productivity. “Why Do Cities Matter? Local Growth and Aggregate Growth” concludes that due to lack of affordable housing, high-productivity markets are not the main contributors to economic growth.

http://bit.ly/1IlphXE
Synthetic Subsidy

By Tom Cary, Treasurer, MaineHousing

MaineHousing is often asked to refinance multi-family mortgages when prevailing rates are below that of an existing mortgage. After 10 years from the day of issuance, MaineHousing is allowed to refund the original bonds with new bonds. We only execute these refundings when we are able to lower the rate on the bonds. Our borrowers reason that if we lower the rate on the bonds, we should be able to reduce their mortgage rate. Instead, our policy has been to spend the savings generated through refundings on creating a subsidy for new projects instead of lowering the rate on the existing mortgages.

FUNDING AFFORDABLE HOUSING PROJECTS

If all it took to create affordable multi-family housing was a below-market interest rate on the paying mortgage, we could easily meet the demand. To keep rents affordable, paying mortgages rarely exceed $30,000 per unit. Since new construction costs per unit run in the $150,000 - $200,000 range, most of the required capital comes from sources other than the paying mortgage. Private equity is generated by the Low Income Housing Tax Credit and the federal and state historic tax credits. But even after the equity is generated, most projects have a gap that must be filled with a subsidy. HUD’s HOME Investment Partnership Program and the Housing Opportunities for Maine (HOME) Fund are two sources that have been used to fill this gap. If these sources had not been supplemented by a subsidy generated by refundings, many projects currently housing low and moderate income renters would never have been built. Subsidies from bond refundings have been used in over 60 multi-family and supportive housing projects.

REFUNDINGS AND IRS ARBITRAGE LIMITS

When MaineHousing refunds outstanding bonds with bonds of a lower rate, the differential or “spread” between the rate on the bonds and the rate on the mortgages is increased. The IRS restricts the spread between the average mortgage rate and the average bond rate on each bond issue. Assuming that at the time of original issuance the spread was at or near the IRS limit, the refunding would put the issue out of IRS compliance. To remedy this, MaineHousing includes additional “new money” bonds in the refunding issue and lends these new proceeds at 0%. These 0% mortgages absorb the savings generated by the refunding issue and, by lowering the average interest rate on the mortgage, bring the issue back into tax compliance. The excess spread on the old mortgage stays in place in order to cover the negative spread on the bond proceeds used to fund the 0% mortgages.

We could consider a new policy of saving that subsidy to meet any borrower requests for rate reductions, but is that the best use of the money? The project was financially viable when it was underwritten, and the loan is not in default. How would the tenants benefit from a reduced interest rate and how would we ensure that happens? The alternative is to help more people and generate economic activity by using the funds to subsidize additional affordable housing. That is the choice we make.

CONCLUSION

We value the relationships we have with Maine’s for profit and non-profit affordable housing developers. They provide excellent housing and work with the many regulations that come with the use of public funds. Where our perspectives sometimes diverge is on how to best use the money saved through bond refundings. Our interest is in creating as much quality affordable housing as we can.