



HOME FUNDERS: RAISING THE ROOF FOR FAMILIES CONCEPT PAPER

Home Funders is an effort to rally the philanthropic community to address an unprecedented crisis in housing Massachusetts's poorest families. We seek to address the shortage of very affordable housing, and in so doing, build a ground-breaking national model that shows how one community can bring its families home.

Home Funders was initiated by a collaborative of local private funders who have agreed that the crisis in family housing merits a unique one-time commitment of assets in the form of very low interest loans and grants. Those participating in the development of this initiative to date include The Paul and Phyllis Fireman Charitable Foundation, The Highland Street Connection, The Hyams Foundation, The Boston Foundation and Mellon New England. Annie E. Casey Foundation, Fidelity Management and State Street Foundation are new investors. FleetBoston and the Mulford and Lynch Foundations also have joined as funders. A total of up to \$18 million in loans and over \$800,000 in grants has already been pledged. The Fund is seeking additional investors/partners to bring the Fund to a total of \$26 million.

Participation in the Fund can take two forms:

1. Program Related Investment (PRI) Loans at 1% interest for 5-20 years; and
2. Grants to fund services including housing search, stabilization and financial management; public education about family homelessness and the need for very low-income housing; project equity and loan loss reserves; administrative infrastructure; and evaluation.

A fund of this size can create 1,000 permanent homes for extremely low-income families and leverage an additional 3,000 affordable units during the next ten years. Accomplishing this, however, will require a 5 to 20 year investment of loan funds.

Home Funders is different from current efforts to build affordable housing in two key respects:

- ⌚ It will house families earning \$24,500 annually or less – 30 percent of area median income or below. That's a family where both parents work minimum wage jobs or where a single parent with three kids makes less than \$12 per hour; and,

- Ⓜ It will integrate family units into mixed income housing, rather than create blocks of low-income housing.

More importantly, Home Funders seeks to tap the power and scale of the investors' endowments to drive significant change in the housing finance system. The Fund represents a new philanthropic strategy: rather than small-scale grants to individual projects, the Fund will work closely with municipalities, the State, developers and existing financing programs to demonstrate that with the right mix of resources, focus and will, solutions are possible.

The Need is Critical

Homeless and very low-income families are facing an extraordinary crisis in Massachusetts today. Every night, over 1,000 Massachusetts families are in homeless shelters. Every single bed in 80 state funded shelters is full and families are living in motels at state expense. An additional 10,000 families, with more than 20,000 children, lack permanent housing. They are doubled up with friends, relatives or living in cars.

Last year, nearly two-thirds of working families who asked for emergency shelter were turned away. One quarter of families living in shelters are working. Many more could work if they had stable homes. We cannot afford to let this continue.

Many factors have contributed to this shortage of very affordable rental housing. Housing costs have skyrocketed in the past few years. Because of the loss of rent control and the expiration of public affordability restrictions, nearly 18,000 affordable units have been lost since 1995. To exacerbate matters, the federal government has pulled back its investments in affordable housing steadily since the early 1980s. In addition, while welfare reform has had some success in getting people into jobs, these entry-level positions do not create enough earning power to afford home ownership or even market rate rental apartments.

Even housing that is "affordable" may not be available to very low-income households. Affordable housing, without additional operating subsidy, is generally affordable to families at 50% of median income or above (\$40,400 per year for a family of four). So even "affordable" rents are typically set at prices very low income or homeless families cannot afford.

Despite the tremendous need, each year, only a handful of permanent housing units are created for very low-income and homeless families with incomes less than 30% of median income. There are good reasons for this – the extremely tight housing market; financing challenges; lack of resources, particularly operating subsidies; and lack of development capacity to serve this population. The Fund is designed to help developers overcome these barriers in order to serve the lowest income families in the community.

This problem is solvable. Twenty years ago, Massachusetts did not have this high level of family homelessness. Providing very affordable housing is a critically important part of getting to a solution.

Something Can Be Done

It's time to make the numbers work for our poorest families. The Fund is seeking to influence the local affordable housing finance system to make it more responsive to our most vulnerable low-income families. The Fund is designed to deal with all the identified barriers – low cost capital, operating subsidies, streamlined funding process, and grants for community services – to jumpstart housing creation for very low-income families. The Fund is also going to model a new, lower cost way of developing affordable housing by acquiring and renovating units with a streamlined single source of funds.

Home Funders will greatly enhance Massachusetts's existing housing resources by adding a new, \$26 million targeted pool of funds that will increase the supply of housing available to the lowest income families as well as focus attention on this crisis. The Fund will be a unique resource for the development community; it will provide financing that is attractive in rate, terms and ease of use and compatibility with the existing network of resources.

The Fund creates an incentive for developers to access existing funding (Section 8 subsidies) to help very low-income families afford the housing. The federal Housing and Urban Development Department (HUD), through local housing authorities or through the state housing agency, provides subsidy to make up the difference between what very low-income families can afford and the rent for the unit. These Section 8 subsidies can be "project based" for use in mixed income projects. The Fund will help leverage the use of these valuable Section 8 vouchers and better utilize this important federal resource. While Section 8 is in crisis now due to budget and regulatory threats to its viability, Home Funders has joined other advocates to help to preserve this valuable program.

Strong support from the City of Boston has demonstrated the importance of the private funder contribution. In exchange for Program Related Investments (PRIs) in city housing projects, the City of Boston has committed funding for a demonstration project to create the first 200 units. In addition, it has committed 50 project-based Section 8 subsidies to the initiative as a first step. This was an initial commitment made on a pilot basis, and the City has indicated its willingness to provide additional Section 8s and other subsidy as the initiative progresses. The Fund is also seeking the involvement and support of the State and other city governments.

Goals

The PRI fund concentrates 75% of its lending activity in greater Boston (101 jurisdictions of the Metropolitan Area Planning Council), with a focus on the city of

Boston. Up to 25% will go to projects elsewhere in the state. The Fund has established the following goals:

- ⌚ To increase the supply of rental and homeownership housing for extremely low-income households integrated into mixed income, family developments by 1,000 units.
- ⌚ To encourage innovation in development strategies by providing new tools and by leveraging city and state cooperation. By setting aside resources and by streamlining the siting, permitting and fund award process, other public partners will increase the impact of the Fund.

The Fund seeks to tap the creativity of the affordable housing community. Setting out the target and the parameters, the Fund will invite developers to generate specific project ideas about how to use the Fund to increase the supply of affordable housing for very low-income families.

Projects that wish to utilize the Fund must demonstrate that the funding will:

- ⌚ Be used in a project that provides a minimum of 20% of the units for families at or below 30% of median income;
- ⌚ Be used in a feasible project with high likelihood of the return of principal at the end of the loan period;
- ⌚ Not duplicate any existing funding or increase costs; and
- ⌚ Provide long-term affordability and use restrictions.

Non-profit developers or joint ventures between non-profit and for profits will be eligible. In some cases, investors may be willing to lend to for-profit developers as long as the goals of the fund are achieved.

Fund Loan Terms and Structure

The Fund will offer attractive, low interest financing to encourage developers to develop innovative approaches to serving low-income families. The investors will lend the funds at 1% for terms of at least five years. While five years will be the minimum term for funder investment, the effectiveness of the fund for long-term affordability will be maximized by investing for terms of 20 years. Many investors lend for 10 and 20 year terms.

The Fund investors want to minimize risk to the principal and receive some return, however modest. Working through skilled intermediaries minimizes investment risk. Investments will be made, at low interest, through a Limited Liability Corporation (LLC) to the intermediary organizations to be re-lent to projects. The intermediaries are responsible for repaying the loan at the end of the term and providing security for the investments.

Fund Investments

Home Funders will offer a variety of products so that it can act to flexibly fill gaps as needed and can respond to the particular needs of specific projects and investors. This could range from streamlined, low cost acquisition funding for up to 2 years or patient, project equity for 10 to 20 years.

The Fund will offer two basic loan products at very low interest rates to projects that meet the affordability goals of the fund. Loan terms may vary between 10 and 20 years but the interest rate will be 2% to 3%.

1. Pre-development and site acquisition funding for projects that will serve the lowest income families.
2. Permanent financing for projects that incorporate units for extremely low income families.

If necessary and appropriate to the market, Home Funders will consider other products such as:

- ⌚ Guarantees for mobile Section 8 vouchers in projects to increase the project's ability to obtain financing and leverage maximum private debt
- ⌚ Homeownership loans to facilitate use of Section 8 vouchers for homeownership opportunities for very low-income families

Home Funders will have the ability to improve the system and enhance the Fund's feasibility with a complementary grantmaking component. Adding grants where appropriate will help developers to achieve the Fund's goals and make the Fund more attractive. Grants to complement the loans will be used for:

- ⌚ Capacity building for organizations to help them identify housing acquisition opportunities
- ⌚ Transition and stabilization grants to provide assistance to help formerly homeless families succeed in permanent housing
- ⌚ Administration expenses of the loan fund to insure that the loans can be made without mark-up to the borrower
- ⌚ Public education and public policy to increase awareness of family homeless and solutions to serving extremely low income families.
- ⌚ Loan loss reserves

Administration of the Fund

Home Funders will use two housing organizations with strong capacity to administer the loans – the Community Economic Development Assistance Corporation (CEDAC) and the Massachusetts Housing Partnership Fund (MHP). Both organizations have an excellent housing track record and demonstrated skill in underwriting and portfolio management.

CEDAC and MHP are perfectly suited to implement the goals of the Fund and have experience with a broad range of target borrowers. They are experienced in managing investor funds and possess the judgment, flexibility and innovation to manage such a multi-purpose fund. Investors will be provided with the professional administration that will optimize protection of their investments.

Governance

Home Funder loan investments will be overseen by a board comprised of those who make PRI investments through the Home Funders LLC. This board of managers will meet at least quarterly to monitor all investments. Grant funds for Home Funders will be pooled at The Boston Foundation in a separate account. Distribution of these funds will be overseen by those funders making grants to the initiative, and all decisions will be consistent with the overall goals of Home Funders.

Impact of the Fund

The new resources contributed by the PRI Fund will encourage developers to creatively structure their projects to maximize the Fund's potential and leverage state and federal resources. Using the PRI investments to steer developers toward serving very low-income families maximizes the impact of the Fund on creating housing for very low-income families while increasing the overall housing supply. We have estimated that, with leverage, the fund can create 1,000 very affordable units as a part of the creation or preservation of another 3,000 units.

Why Invest?

We are asking for an extraordinary investment, in the form of a very low-interest loan or Program Related Investment for a five to twenty year period, or in grant support. While the financial return is small, the social return of participating in a groundbreaking national model is enormous. You'll get your money back and you'll see direct, local results.

- 🕒 **Protect other social investments.** Research shows that children who experience homelessness are much more likely to have an array of problems. Everything else we fund for children and youth – education, social services, recreation, afterschool care – is potentially a lost investment if the children we are serving do not have homes.
- 🕒 **Be a part of a national model.** With your contribution we can create a national model for solutions to address an affordable housing crisis that impacts cities across the US. Your return on investment is that families are housed and you'll have the satisfaction of participating in an innovative national model.
- 🕒 **We can't afford not to.** In addition to the social cost of not housing our families, our state budget cannot afford its current expensive shelter system. It

costs \$22,000 to \$40,000 annually to shelter a family. We must shift our resources away from crisis management to prevention and permanent solutions.

As a country, the US has a higher level of family homelessness than any industrialized nation in the world – the demand for a successful solution is tremendous. Together we can demonstrate that a solution with tangible, local results is possible.

ATTACHMENT A

Home Funders' Lending Process

Through PRI loans, Home Funders enhances existing housing resources in the Commonwealth by adding a new, targeted pool of funds that will increase the supply of housing available to the lowest income families. Home Funders is designed to deal with the identified barriers – low cost capital, operating subsidies, streamlined funding process, and grants for community services – to jumpstart housing creation for very low-income families.

Most private investors will lend their PRI funds to Home Funders at 1% for terms of at least ten years. (The Annie E. Casey Foundation is lending \$1 million for five years and has made a companion \$50,000 grant commitment toward a loan loss reserve.) Investing for terms of 20 years will maximize the effectiveness of the fund for long-term affordability. Three investors have committed to terms of 20 years. The length of the loan term and type of loan to the project (predevelopment, acquisition or permanent) will be matched to the funder's term. Investors will receive interest on an annual basis.

Home Funders will offer two basic loan products at very low interest rates to projects that meet the affordability goals of the fund: 1) predevelopment and site acquisition funding; and 2) permanent financing to demonstrate a new model of acquisition and rehabilitation or to fill gaps and enhance affordability. Loan terms may vary between 2 and 20 years. The interest rate to the borrower will be no more than 3%. Repayment of loans will be from takeout of short-term debt by traditional loan and subsidy sources or in the case of 20-year permanent loans, by re-financing at the end of the term.

Projects that wish to utilize these funds must demonstrate that the funding will:

- ⌚ Be used in a project that provides a minimum of 20% of the units for families at or below 30% of median income;
- ⌚ Be used in a feasible project with high likelihood of the return of principal at the end of the loan period;
- ⌚ Not duplicate any existing funding or increase costs; and
- ⌚ Provide long-term affordability and use restrictions.

The Fund investors want to minimize risk to the principal and receive some return, however modest. Working through skilled intermediaries minimizes investment risk. Investments are being pooled and made through a Limited Liability Company (LLC) to the intermediary organizations to be re-lent to projects. Home Funders is using two housing organizations with strong capacity to administer the loans – the Community Economic Development Assistance Corporation (CEDAC) and the Massachusetts

Housing Partnership Fund (MHP). Both organizations have an excellent housing track record and demonstrated skill in underwriting and portfolio management. CEDAC and MHP are experienced in managing investor funds and possess the judgment, flexibility and innovation to manage such a multi-purpose fund. Investors will be provided with the professional administration that will optimize protection of their investments. The intermediaries are responsible for repaying the loan at the end of the term and providing security for the investments.

Those Home Funders' resources made available through CEDAC will revolve because of the shorter term nature of its lending. This means that a portion of the loans from Home Funders will circulate up to 4-5 times over the 10-year period. The ongoing nature of Home Funders will insure that there is interest and involvement by the investors, including additional fundraising over the life the Initiative.

Leverage is critical to the success of Home Funders. The City of Boston and the state of Massachusetts have embraced Home Funders and have committed to bringing their resources, including project-based Section 8 subsidies, to help with the problem of family homelessness. Home Funders will also reach out to other cities in the Commonwealth to secure their commitment of resources to address the issue of homelessness.

Services Component

Introduction

Home Funders proposes to set aside some of the grant funds raised to invest in services for very low-income families, especially those that are homeless, who reside in Home Funders units. While the population in need of services may be relatively small (prior work with these families suggests about 10%), the experience of our partners has demonstrated that strategic assistance at the right moments can help these families successfully transition and stabilize themselves in their new homes. Below are our thoughts about the needs and how these needs can best be met using Home Funders resources.

The Service Need

The experience and expertise of the One Family Campaign has been useful in helping Home Funders understand the potential need for services for very low-income families. These services are part of a path to stabilization defined by the families and the Housing Assistance Provider and might include:

1. Achieving Housing Success (maintaining your home; avoiding eviction)
2. Economic literacy (including resolving credit issues)
3. Linkage to literacy/education, skills development and/or employment;
4. Integration into mixed income developments;
5. Access to other community-based resources and programs; and
6. Case management services (for a limited number of families, e.g. to address significant and multiple service needs such as mental health issues)

We will not focus heavily on case management, but will instead use our resources as an “incentive and innovation fund” that can help broker connections and referrals that help very low-income families access new opportunities.

Our Recommendation

To address the needs of families in Home Funders’ units, we propose to work with existing Housing Assistance Providers (such as the Metropolitan Boston Housing Partnership or Homes for Families). These organizations already have the capacity and track record to provide these services, which will allow our dollars to have greater impact. In addition to the support offered above, these providers will:

1. Work with developers/management companies in the recruitment and review process to ensure a range of very low-income families are selected for the available units. Providers might recruit from homeless shelters and other recruitment forums.
2. Work as troubleshooters to address problems. This might include building relationships with developers/management companies to establish a voluntary early warning system at the first sign of non-payment. Mediation might also be

- offered to resolve disputes, preserve the tenant's seat in permanent housing, and reduce eviction costs for developers.
3. Help families develop a plan for moving out of subsidized housing into unsubsidized rental housing or home ownership.

We envision awarding flexible grants of up to \$10,000 for one year. These grants will allow Housing Assistance Providers to leverage existing staff positions and perhaps gain resources for relevant additional services that they are not currently able to support (e.g. transportation assistance). We will need to flesh out this thinking more to make sure that the grant amounts are sufficient and that we consider various alternatives (e.g., paying providers on a per family basis.) There may also be a few developers that have the capacity to work with many very low-income families directly that we might want to award grants to supplement services they already provide:

We propose a number of next steps to implement this recommendation:

1. Map the location and timing of the Home Funders units coming on line. (This will help us determine the timeline for our own process to make funds available.)
2. Meet with developers to discuss recruitment processes and their voluntary participation in early notification and mediation efforts for their very low income tenants. (Experience on the ground suggests that developer/management companies are more likely to lease to these families if they have such a support network.)
3. Identify Housing Assistance Providers serving the geographic areas where Home Funders developments are located.
4. Develop a Request for Proposals for response by Housing Assistance Providers.
5. Award grants to selected Housing Assistance Providers.
6. To assist the Housing Assistance Providers in recruitment, map out where family homeless shelters are located relative to our Home Funders developments.

Learning from Promising Practices

Home Funders will continue to learn from the experience of our partners as we seek to support the provision of services for very low-income families. The One Family Campaign, for example, has experience with the Rolling Stock Program, in which non-profit organizations engage in leases with developers on behalf of very low-income families until these families can meet certain conditions in a few months and the lease can be put in their names. This program removes barriers to getting permanent housing on the part of the families and gives the developers greater confidence that their concerns will be addressed. In some instances, such a model might be useful in helping us place very low-income families in Home Funders units. As another example, the Cushland-Highlands development in New Bedford, supported by the Highland Street Connection, provides some family support services on site, including a child care facility. Though experience suggests that developers do not often have the capacity or experience to provide support services to very low-income families, there are clearly conditions under which developers do make the decision to provide services. Home

Funders will explore these approaches and apply the lessons learned as appropriate in our own efforts.

Public Policy and Public Education Components - "Making the Case" for Very Affordable Housing

In addition to the actual creation of additional very low-income housing units, Home Funders has three critical complementary goals. They are:

- To increase awareness of the serious lack of very low-income units and the crisis in family homelessness that has resulted;
- To advocate for public policies and public sector resources that are critical to the creation of these units (such as increasing Section 8 rental subsidies); and
- To expand the vision of philanthropy, in Massachusetts and across the country, by using local Program Related Investments on a large scale in order to have a significant impact on a critical social problem.

To accomplish these goals, Home Funders plans to undertake a series of public education and public policy advocacy activities:

1. Continue to maintain and strengthen the homefunders.org website as a key source of information on family homelessness and the crisis in housing our lowest income families: The website also will be used to publicize those projects that are financed with Home Funders' loans, helping to demonstrate that homeless families can become a part of a variety of housing developments, located within a broad range of communities. Finally, the site will continue to be a repository of information on the nature of the affordable housing and family homelessness crises both within Massachusetts and in other parts of the country.
2. Organize a series of public announcements and events in various locations across the state to publicize Home Funders' projects: Our next major goal is to have such an event with the Governor of Massachusetts in order to draw greater attention to the public/private collaboration that is embodied within Home Funders and to encourage other private funders to consider PRI investments. Working through CEDAC and MHP, those nonprofit developers receiving Home Funders' loans also will be asked to help publicize Home Funders as a part of their own public relations activities.
3. Educate elected officials and fellow private funders about the special affordability needs of extremely low-income families: As private funders concerned about the affordable housing crisis in Massachusetts, we have come to understand that "affordable" has many meanings. To be considered "affordable" in Massachusetts (and to qualify for public subsidies), housing must be affordable to those with incomes that are 80% below area median income, or \$64,000 for a family of four. While there is a significant need for housing for this income level, a very low-income family of four, with an income of no more than \$24,000, could

never afford to live in these “affordable” housing units. Home Funders plans to make the case for more resources to enable housing developers to reach these families, including advocacy at the federal level for additional Section 8 subsidies. Governor Romney recently identified the affordable housing crisis as one of his highest priorities for 2004, and Lieutenant Governor Healey currently chairs a special inter-agency task force charged with addressing family homelessness. Home Funders also has the support of the state Department of Housing and Community Development (DHCD) in terms of giving priority to projects that include Home Funders’ financing when allocating tax credits. Home Funders plans to continue to work with the Romney Administration to emphasize the importance of housing for homeless and other very low-income families.

In terms of the private funding community, Home Funders has an additional interest in encouraging private funders to focus on very affordable rental housing. In recent years, a number of foundations and corporate giving programs have focused instead on homeownership for low-income people. While this too is a very important social goal, for homeless and other very low-income families, homeownership is not likely to be a realistic immediate goal, especially in a heated real estate market. For this reason, Home Funders also plans to advocate for greater private philanthropic investment in very affordable rental housing.

4. Lend Home Funders’ voice to others’ housing advocacy efforts: Home Funders also intends to join other housing advocacy efforts that are seeking to achieve similar goals. One very important initiative, the One Family Campaign, was created by one of the Home Funders’ initial investors, the Paul & Phyllis Fireman Charitable Trust. The One Family Campaign’s mission is to “ending family homelessness one family at a time”. While One Family has a broad focus on ending family homelessness, Home Funders will be a complementary “voice” on behalf of the affordable housing component of solving this problem through One Family’s publications and its own web site (onefamilycampaign.org).
5. Fund specific research and/or advocacy undertaken on Home Funders’ behalf by local nonprofit advocacy organizations. In order to make a stronger case for housing extremely low-income families, we realize that targeted research and/or “position papers” might be needed. Based on the level of grant funding that can be raised for its public education and public policy work, Home Funders will consider making a grant(s) for this related research.

We envision that we will need the assistance of a public relations consultant to help with public announcements and press relations, and a consultant with public policy expertise to learn about and ensure that Home Funders is included within related public policy advocacy efforts. If additional funding can be raised, we would also consider a grant(s) to a local public policy advocacy nonprofit(s) (such as the Citizens Housing and Planning Association) to undertake needed research and/or production of advocacy position papers.

