Interim Report

Meeting the Financing Needs of Opportunity Neighborhoods in Ohio:

The Credit Gaps Landscape and the Role of Community Development Financial Institutions

Greater Ohio Policy Center

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Executive Summary

This report reflects the Greater Ohio Policy Center's (GOPC) findings and recommendations from its first phase investigation into credit and related capacity challenges in providing credit in Ohio's "opportunity neighborhoods." GOPC defines "opportunity neighborhoods" as those: not facing a precipitous decline relative to the rest of their city; having room for improvement; and showing signs of stability or some improvement. Using an innovative methodology involving a mix of market and household variables, GOPC identified 52 opportunity neighborhoods in eight of Ohio's largest cities. These neighborhoods are representative of other neighborhoods throughout the state with similar characteristics and conditions.

Understanding the credit gap challenges sets the stage for connecting these gaps to financing challenges and solutions. The access to capital and the capacity to absorb it has profound implications for the development of these opportunity neighborhoods. Similarly, understanding the tools needed to improve these neighborhoods can help frame practical solutions. This report provides an interim analysis as part of an on-going Project analyzing these issues and, in particular, the role Community Development Financial Institutions (CDFIs) can play in finding solutions. While CDFIs play a particularly vital role in addressing credit challenges, the role of conventional lenders in providing capital in these neighborhoods remains critically important along with the activities of other local organizations and funding sources.

Broadly speaking, the challenges break down into four areas. The central challenge in these neighborhoods is access to financial resources and lenders with capacity to provide a sufficient flow of capital. In addition to the need for capital, there are capacity challenges; these neighborhoods need borrowers with enhanced capacity to do "on the ground" work. At the same time, the suboptimal condition of the housing market and the commercial sector in opportunity neighborhoods is a continuing obstacle. Finally, the public, private, and non-profit sectors need to align if realistic strategies for revitalization are to be developed and effectively implemented, but this coordination is often difficult to implement.

Fundamentally, to bring about revitalization, opportunity neighborhoods need to increase stable homeownership; remove blight by reusing vacant properties and upgrading substandard properties; maintain a stable rental sector; and foster business growth. However, there are long-standing problems that interfere with achieving each of these goals. This report identifies some existing tools and good practices (both in and outside Ohio) that are available to address these problems. However, many gaps remain that need to be filled with a stronger role for CDFIs as well as other players. Currently, Ohio CDFIs face their own challenges, including a lack of sufficient capital, limited capacity of partner organizations, limited operational and geographic scope, and difficulty of building a sustainable financial model. These problems are not exclusive to Ohio CDFIs.

The report concludes with some preliminary recommendations, such as deploying CDFI resources strategically; leveraging non-CDFI partners; engaging the conventional lending sector;

and building CDFI capacities and also the capacities of local intermediaries as well as land banks and port authorities that could play an unusual and creative role in neighborhood revitalization in Ohio. The framing of the challenges and the recommendations provide the springboard for the next phase of this Project that will further evaluate how to fill the credit gaps and generate additional CDFI and other organizational capacity.

I. Introduction

One of the greatest challenges, as well as most significant opportunities, facing Ohio's older cities is the future of their residential neighborhoods -- areas developed primarily between the late 19th century and the 1960s largely with single-family homes. These include many neighborhoods that are still viable, yet at risk of economic decline and demographic change. Also included are neighborhoods that, by virtue of their location, amenities, or distinctive housing stock, offer significant potential for revitalization by attracting their share of the emerging market demand for urban living. These are the so-called "opportunity neighborhoods" (defined in more detail in the next section) and the primary subject of this Report. The ability of some urban neighborhoods to capture fully their potential, and others to be successfully stabilized, is an important element in whether and how Ohio's older cities will regenerate themselves and restore their central role in their regions' economies.

While many factors will determine these neighborhoods' outcomes, one of the most critical factors is access to capital. For homebuyers, it is the ability to access mortgages and loans to improve vacant or substandard houses. For existing property owners – both homeowners and absentee owners – it is access to capital to upgrade their properties. For for-profit and non-profit developers, it is the ability to find funding sources to build and rehabilitate housing. All these credit access factors play a critical role in shaping the future of these places.

As part of this Project, the Greater Ohio Policy Center is investigating the challenges facing these actors in accessing capital to reinvigorate these neighborhoods. Understanding the credit gaps and related financing challenges makes it possible to find and connect them to potential solutions. Access to capital and the capacity to absorb it have profound implications for the development of these neighborhoods. Moreover, understanding the tools needed to improve these neighborhoods can help frame practical solutions. This Report presents the findings of GOPC's first phase analysis of these issues and focuses on the role that Community Development Financial Institutions (CDFIs) can play in finding solutions.

While CDFIs can play a particularly valuable role, a number of players are positioned to have a significant impact on revitalization in these neighborhoods. In many cities, the philanthropic sector has made major contributions toward neighborhood rebuilding. Community Development Corporations can provide strong on the ground work coupled with intimate knowledge of their communities. State and local governments can provide funding and programs to support revitalization, as well as the leadership to engage citizens and corporations.

None of these players, however, can replace conventional lenders in providing capital for opportunity neighborhoods. The scale and nature of these neighborhoods' capital needs is such that without access to resources from multiple sources, including those that only the conventional lending sector can supply, these neighborhoods are unlikely to gain ground in coming years.

Generally speaking, since the end of the housing bubble, and the ensuing mortgage crisis and what has come to be known as the Great Recession, banks have on the whole become more risk-averse and more reluctant to lend to borrowers or for projects or in locations that they consider higher risk. These practices have been reinforced, particularly with respect to the home mortgage market, by the policies of the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac, and their regulator, the Federal Housing Finance Agency (FHFA). While these challenges and their sources are complex -- many reflecting national policies and considerations well beyond the scope of this Report -- the availability of conventional credit sources under reasonable terms is still critical in order for millions of American families to realize the dream of homeownership, and for hundreds of neighborhoods, in Ohio and elsewhere, to have an opportunity to revitalize, improve their marketability, and achieve a better quality of life for their residents and businesses. Despite the general approach to lending noted above, there are encouraging signs of improved credit opportunity that can support neighborhood revitalization, such as Fannie Mae's new HomeReady mortgage product for low- and moderate income borrowers,[1] although it is too early to tell whether this and other new investment products will be successful.

This Report addresses a range of questions regarding the credit challenges facing the opportunity neighborhoods in Ohio's metro areas, including:

- What opportunities exist for community development-focused organizations to build capacity and/or collaborate to leverage resources further; and what role, specifically, do CDFIs play in capital access?
- Is there sufficient capacity in Ohio to implement best practices in improving capital access in opportunity neighborhoods?

This second point is particularly important. This Project began with the premise that the central issue was access to capital. As GOPC delved into the issues, however, it became increasingly clear that the problem was two interwoven issues: (1) access to and availability of capital, and (2) the capacity to both provide and utilize the capital -- that is, the ability of CDFIs to get capital on the street, the ability of local governments to create the infrastructure for successful revitalization, and/or the capacity of community development corporations (CDCs) and others to utilize capital effectively in their neighborhoods. Building all the capacities that are necessary to move capital effectively into opportunity neighborhoods is as important a challenge, in its way, as access to the capital in the first place.

This Report focuses particularly on the capacity and importance of the role of CDFIs, for several reasons. As mission-driven institutions, they have a commitment to working for the improvement of lower-income communities and their residents that are the focus of this Report. They have shown the ability to be creative and flexible to design and implement lending tools that meet the needs of their communities. For these and other reasons, they are well-positioned to consider new ways to address these communities' needs. Even as this Report is

[1] https://www.fanniemae.com/content/fact_sheet/homeready-overview.pdf.

being written and this Project proceeds, CDFIs are increasingly exploring new ways to fill these neighborhoods' credit gaps, by building partnerships with local governments, CDCs and others to meet their needs. Moreover, in these neighborhoods, CDFIs can play a key role in partnership with conventional lenders in underwriting and servicing loans.

Background and Methodology

Neighborhood vitality is one of the most important, yet often overlooked, factors that may offer legacy cities a path to population regeneration. While some neighborhoods have faced significant decline over the past several decades, requiring extensive redevelopment that would be onerous to fund, others are simply missing the right mix of financial tools for regrowth. This Project has identified "opportunity" neighborhoods and has developed a method to identify these neighborhoods along with the financial tools that could be used to bring about their revitalization.

This Project gathered and analyzed data and developed a neighborhood typology identifying a range of neighborhoods in Ohio cities that would benefit significantly from new financing tools. These neighborhoods, 52 in all -- referred to here as "opportunity neighborhoods" -- were chosen using variables such as: the change in the number of households in a neighborhood; poverty, vacancy and owner-occupancy rates; median sales value; and certified tax delinquencies.[2] GOPC examined trends and market data over time in a selection of neighborhoods in eight Ohio cities: Columbus, Cleveland, Cincinnati, Dayton, Toledo, Youngstown, Akron, and Warren. The GOPC team collected and analyzed neighborhood data from the perspectives both of larger neighborhood trends and potential demand for specific financing products.

Opportunity neighborhoods are identified as those:

- not facing a precipitous decline relative to the rest of the city;
- having room for improvement; and
- showing signs of stability or some improvement.

In a more technical sense, an opportunity neighborhood is one in which the number of households has not decreased at a rate faster than the city average; poverty rates are stable or improving; and market indicators are better than the city average. The specific data values that identify an opportunity neighborhood are indexed by city. Therefore the definitions of opportunity neighborhoods may differ from city to city. Generally, and from a geographic perspective, the vast majority of opportunity neighborhoods are clustered around the urban cores of their respective cities.

While researching the opportunity neighborhoods, GOPC hosted two convenings: one roundtable in Washington D.C. that brought together national-level experts in housing and neighborhood redevelopment policy to understand and frame the access to credit challenges; and a second meeting in Columbus, Ohio of the state's most active Community Development Financial Institutions (CDFIs). GOPC also conducted qualitative research into the 52 identified neighborhoods through interviews with local officials, business and educational leaders,

[2] See Appendix A for details on variables and selection methodology.

realtors, small builders/developers, community development corporation staff, and local academics. This local scan also gave GOPC valuable information on the location and existence of neighborhood assets and attributes, such as anchor institutions, important community organizations and other indicia of stability that contribute to a healthy housing market.

GOPC researched the institutions and vehicles -- the Ohio Housing Finance Agency, local or community banks, and non-bank lenders -- currently serving the types of markets in opportunity neighborhoods to understand how they evaluate borrowers and assess urban neighborhood markets and individual properties in those markets. This first phase of the Project also documented existing financing vehicles and the circumstances under which they are available to communities. GOPC reached out to state and local government agencies, foundations and other institutions that might partner with lending institutions in structuring risk-sharing and risk management opportunities to consider how they might be incorporated into potential new financing vehicles. Beyond Ohio, GOPC conducted interviews with a range of community development finance organizations that are known to have innovative programs and products.

Based on this research and analysis, GOPC has identified key goals that drive the need for greater access to credit and has developed a menu demonstrating how credit challenges can be matched with solutions in the form of tools designed to facilitate capital access for actors in emerging and stabilizing urban markets. This framework provides the context for understanding on-going credit gaps and the role for CDFIs. Looking ahead, these new financing vehicles will need to build in a holistic approach to lending that accounts for neighborhood characteristics and trends, as well as the borrower's credit history and other relevant considerations. By linking neighborhood and individual borrower assessment with appropriate risk-sharing and management features, it should be possible to create financing tools that will significantly increase capital access for existing property owners and new home buyers in emerging neighborhoods, while ensuring manageable risk within responsible lending parameters. GOPC sees this as an achievable goal.

II. Credit and capacity: understanding the challenges, the players and the tools.

A. Defining the challenge: an overview

Through interviews with the CDFIs, as well as additional research and investigation into other organizations, GOPC identified foundational needs that are laid out here to frame the challenges facing opportunity neighborhoods (See Table 1.) The tools explored later in this Report are based on this analysis of these needs.

As noted earlier, the issue facing opportunity neighborhoods is not simply access to credit, but also the ability to use it effectively. While hard to quantify, it is clear that constraints on the ability to take advantage of whatever credit opportunities may exist is a separate and additional problem affecting many opportunity neighborhoods. These constraints may be a shortage of creditworthy would-be homebuyers, landlords and small business owners, or a dearth of locally-based entities capable of managing small-scale lending to developers, landlords or small business owners. Creating new credit vehicles is essential to ensure that opportunity neighborhoods gain access to the credit they need to build and sustain their vitality, but a comprehensive approach to these neighborhoods' credit environment, including capacity-building strategies, is necessary as well.

Clearly, the central challenge is access to financial resources. **Simply stated, these neighborhoods need lenders with capacity to provide a sufficient flow of capital**. Access to capital from conventional lending sources is often limited, but the capacity of alternative lenders, particularly CDFIs, to fill that gap is also severely constrained for both financial and technical reasons.

While the role of CDFIs in community development efforts has evolved as neighborhood needs have increased in complexity, these organizations have still struggled to adapt to changing needs. While most CDFIs provide a number of different types of loans, they tend to focus chiefly on one type or area of financing, such as real estate or consumer, leaving other organizations to fill remaining gaps--or leave them unfulfilled. Moreover, many CDFIs lack the technical or managerial capacity to diversify their offerings or expand their scope, even with greater access to capital. These constraints can prevent a full range of financial services from being available in opportunity neighborhoods. However, some CDFIs in other states, such as New Jersey Community Capital or The Reinvestment Fund in Philadelphia, have evolved to provide a wide range of assistance. They present a model for collaboration with local governments that could be replicated in Ohio.

In addition to the need for capital, local players in opportunity neighborhoods have capacity challenges. **Neighborhoods need borrowers with enhanced capacity to do "on the ground" work.** While there are capable borrowers in any neighborhood, the institutional capacity of

CDCs and other intermediaries working in Ohio's opportunity neighborhoods is often inadequate to utilize or process the volume of credit needed. To bring about meaningful change, neighborhood-based entities must be capable of accessing available credit and applying it effectively and productively to projects or investments. Homebuyers need to have acceptable credit, while the neighborhood's housing stock must be of a quality suitable for their needs. CDFIs need borrowers who can use their financing to create a positive impact on the neighborhood in ways that create the cash flow needed to repay the financing.

In addition to building CDC and neighborhood-level capacity, there is a need to build the capacity of other potential neighborhood partners. Land banks, which are still relatively new in Ohio, offer potential to be valuable partners. Local governments need to build their ability to focus on neighborhood strategies, and use their resources – which, despite constraints, are still substantial – to support community investment. Finally, under Ohio law port authorities can play a larger role in community revitalization, as in Cincinnati, where the port authority has partnered with CDCs and others to further neighborhood investment. The potential roles of a wider range of such neighborhood partners will be further investigated in Phase II of this Project.

The condition of the housing market and the commercial sector in opportunity neighborhoods represents a continuing challenge requiring access to capital. Low housing values, declining homeownership rates, and property deterioration and abandonment threaten the fragile stability of these neighborhoods. Strategies are needed to rebuild demand for homeownership, foster reuse of vacant properties, and create strong stable rental sectors. While such strategies may take different forms, a common feature to all is the need for access to capital in a variety of forms.

The challenge is similar for the non-residential market in opportunity neighborhoods with significant commercial or business sectors. Vacant commercial buildings, or marginal, undercapitalized small businesses, typify the commercial districts of many of these places. In order for the business districts to revive and thrive in these neighborhoods and build a stable, sustainable, demand base, access to many different forms of capital is required -- for rehabilitation, fit-out, working capital and more. Commercial financing is often more problematic than residential financing. Not only is it harder to project market demand and the appropriate price points for commercial development in disinvested or distressed areas, but the viability of any commercial loan is heavily dependent on the soundness of the business idea and on effective execution.

Finally, to the extent possible, the public, private and nonprofit sectors need to align around realistic, effective goals and strategies for revitalization in these neighborhoods. If different sectors or stakeholders are working at cross-purposes, or investing in ways that fail to take into account local economic or market realities, the efforts are likely to be ineffective or futile. Local government, philanthropies, CDCs and CDFIs, local business stakeholders, and neighborhood residents need to work together to design and carry out neighborhood strategies. They must take into account market conditions and opportunities, as well as neighborhood assets and

challenges, and target resources around opportunities, rather than spreading resources "like peanut butter."

Because there is no magic bullet that enhances organizational capacity, finds large-scale, sustainable revenue streams, and transforms neighborhoods, opportunity neighborhoods require creative approaches. Many neighborhoods with weak market conditions pose difficult, persistent, challenges. These challenges, however, open the door to innovative partnerships and strategies that can help address their problems.

These challenges are inherent in virtually every aspect of Ohio's opportunity neighborhoods. Any financial tool or strategy must be responsive to these challenges; however, there is no "one size fits all" approach to neighborhood revitalization. Tactics and strategies that work for a particular organization in a specific neighborhood will not necessarily be effective elsewhere. Yet, these opportunity neighborhoods lie in or close to the heart of Ohio cities that form the center of Ohio's metropolitan regions, and their vitality matters to Ohio's future prosperity, so their challenges must be addressed more systematically.

B. Who are the customers for credit?

The credit gaps facing opportunity neighborhoods are wide-ranging, as are the number and different entities or customers potentially in need of credit. As a starting point for identifying the tools needed to serve opportunity neighborhoods, this section surveys the range of those entities and the nature of the credit needs of each, as shown in Table 1 and discussed below.

Table 1: Menu: Development activity, customer, and credit needs

TYPE OF ACTIVITY	CUSTOMER	CREDIT NEEDS
Residential	Developer	Acquisition and pre-development cost financing
		Construction financing (single-family and multifamily)
		Mezzanine financing
		Permanent financing for multifamily rental housing
	Investor	Acquisition financing
		Financing for improvements and rehabilitation to existing properties
	Homeowner/ homebuyer	Purchase mortgage financing
		Down payment and/or closing cost assistance
		Home improvement financing
		Financing (possibly combined with purchase loan) for major rehabilitation/upgrading of existing houses

Commercial	Developer	Acquisition and pre-development cost financing
		Construction financing
		Mezzanine financing
		Permanent financing for non-residential developments
		Financing for fit-out
	Small business owner	Start-up financing
		Property acquisition financing
		Expansion/upgrading financing
		Tenant fit out/equipment financing
Other	Contractors[3]	Working capital
		Construction financing
	Non-profit entities	Educational facility (pre-school, charter school) financing
		Health care/social service facility financing

1) Homeowners

Healthy neighborhoods require a steady flow of homebuyers who are able to sustain home ownership over time. The goal of increasing and sustaining home ownership is a critical element in most revitalization strategies. The most fundamental need is for people who want to buy homes in a neighborhood to have access to mortgages on reasonable terms and conditions, including in many cases financing that allows for rehabilitation as well as acquisition costs. While new homebuyers require mortgages to buy homes, existing homeowners, particularly lower-income homeowners with little wealth beyond the value of their home and whose equity may have been reduced or eliminated in the mortgage crisis, need loans to replace worn-out systems or make improvements to their homes. Ensuring adequate access to affordable improvement loans, especially for homeowners who are highly sensitive to borrowing costs because of limited income, is a central challenge for opportunity neighborhoods.

2) Landlords

Healthy neighborhoods need responsible, adequately-capitalized owners of rental property. While limited access to mortgage financing may be seen as less of a constraint for absentee buyers than limited access to mortgages is for homebuyers, this is a misleading perception. While many investors can access non-traditional capital sources to buy properties, access to

[3] Contractors can overlap, depending on the circumstances, with developers, many of whom are also contractors; and with small business owners. Because their role is important and somewhat distinct, they are shown here as a separate category as well.

mortgage capital would create opportunities for many other responsible investors to enter the urban rental market. Moreover, access to financing for property improvement and upgrades is critically important to ensure a decent quality rental housing stock.

3) Developers and contractors

Neighborhood vitality demands that existing housing be well-maintained and that the neighborhood housing stock be regularly replaced or replenished. To that end, a neighborhood needs a pool of developers and contractors willing and able to acquire, build and rehabilitate properties, both for market-oriented uses and under available subsidy programs, recognizing that subsidies cannot substitute for an absence of market-oriented housing production. While some developers are also contractors, neighborhoods benefit from a body of small, skilled and adequately-capitalized contractors able to do projects ranging from replacing an elderly homeowner's plumbing fixtures to restoring a substantial commercial building on behalf of its owner. Access to financing for developers and contractors offers a host of challenges, reflecting the fact that development requires a variety of different types of capital for different purposes.

4) Small Business Operators

Small business owners are an important element in any vital neighborhood and often struggle to gain access to credit. Moreover, the opportunity to start and grow a business can often be a means by which lower-income individuals, particularly new immigrants, can move into the middle class. Access to lending programs that are flexible and sensitive to the needs of inner-city businesses is important to help individuals start new businesses, obtain the working capital they need to maintain their operations, or access the capital they need to grow their enterprises.

5) Commercial Property Owners

While most opportunity neighborhoods are predominately residential areas, access to financing for commercial activities is also critical to full neighborhood redevelopment, particularly in neighborhoods with neighborhood-scale or larger retail and service precincts. Commercial financing needs fall into two discrete categories: financing for the owners or developers of commercial properties; that is, for the *facilities*; and financing for small business operators; that is, for the *businesses*. These categories overlap to a limited extent, because some business owners also own the facility in which they are located.

6) Community-Serving Facilities

Finally, a well-functioning neighborhood requires a variety of public or non-profit community-serving facilities, such as schools and recreation, child-care, health care, and social service facilities. While sometimes not considered in the same context as residential or commercial

uses, these facilities also often need financing, and often find it difficult to obtain. While traditionally many, if not most, of these facilities were expected to be built and operated by the public sector, in recent years, the picture has changed significantly. New community-serving facilities, if built at all, are typically the product of private initiative – from CDCs, non-profit organizations, foundations and the like – and financed through private-sector channels.[4]

C. Credit and Capacity Challenges and Tools

In this first phase of the Project, GOPC's central objective was is to identify the specific credit needs and capacity issues facing opportunity neighborhoods and outline strategies that can be deployed to meet these needs and challenges, along with examples of specific tools to illustrate the strategies. GOPC identified tools that can be scaled and implemented by different actors in different neighborhoods. The "tools" are primarily but not exclusively financial; key non-financial activities, such as homeownership counseling or effective landlord regulation, are critical parts of what might be considered the infrastructure that enables financial tools to be effectively utilized.

The appropriate mix and scale of these tools in practice depend upon numerous factors, including local capacity, neighborhood conditions, mix of commercial and residential parcels, and market strength, among others. In this first phase of the project, GOPC by design did not develop customized solutions for specific neighborhoods in Ohio. In the section below, we discuss opportunity neighborhood goals, challenges, and prospective tools that can be used to retain population.

Opportunity neighborhoods have four central goals in common. They all need to:

- Increase stable homeownership,
- Remove blight by reusing vacant properties and upgrading substandard properties,
- Maintain a stable rental sector, and
- Foster business growth.

GOPC examined the challenges associated with each of these goals, the credit access needs behind each challenge, and ways to enhance the availability of effective financing tools.

Table 2 summarizes the goals and the challenges that must be addressed in order to achieve them. Underlying all of these goals is the need to build stronger markets in these neighborhoods. Without market demand -- whether in the form of homebuyer demand for properties, the economic basis for restoring vacant properties, or consumer demand for local small business -- no neighborhood will prosper.

[4] Further explanation of CDC investment: http://community-wealth.org/strategies/panel/cdcs/index.html.

Table 2: Goals and challenges

Goal	Challenges
• Increase stable homeownership	○ Expanding the pool of potential homebuyers ○ Sustaining existing homeowners ○ Direct lending programs
• Remove blight by reusing vacant properties and upgrading substandard properties	○ Getting owners to restore their properties to productive use ○ Encouraging homebuyers to buy and restore vacant or substandard homes ○ Creating a pool of capable builders, rehabbers, and contractors in opportunity neighborhoods
• Maintain a stable rental sector	○ Upgrading the quality of rental housing ○ Supporting responsible, long-term landlord activity
• Foster business growth	○ Encouraging rehab/upgrading of commercial properties ○ Fostering creation and growth of small and commercial supporting business

1) Goal: Increase Stable Home Ownership

A high level of home ownership has long been seen as a critical component of neighborhood strength.[5] Higher home ownership rates have been associated in research with many positive factors, including community engagement, property maintenance, and stability of tenure, all of which are likely to affect neighborhood stability and vitality. As a result, many cities have adopted the goal of increasing home ownership, such as Toledo's[6] goal of moving from its current rate of 55 percent to the statewide rate of 67 percent[7]. However, there are challenges to raising homeownership rates, as attracting new homebuyers and sustaining existing homeowners both require access to mortgage capital, rehabilitation loans and home improvement assistance. Moreover, even those tools, if available, may not be sufficient to achieve this goal in a particular neighborhood unless the social, physical and economic characteristics of the neighborhood enable it to draw new buyers and retain existing owners.

[5] Rohe, William M. and Leslie S. Stewart. "Home Ownership and Neighborhood Stability." Housing Policy Debate. Vol. 7, Iss. 1. Pg. 37-81. http://www.tandfonline.com/doi/pdf/10.1080/10511482.1996.9521213.
[6] City of Toledo. "Toledo 20/20 Comprehensive Plan: Toledo by Choice." July 26, 2011. http://toledo.oh.gov/media/9898/Toledo-2020-Plan.pdf.
[7] United States Census Bureau. "State and County QuickFacts." http://quickfacts.census.gov/qfd/states/39/3977000.html.

Table 3: Increasing Stable Home Ownership – Challenges, Tools, and Examples

Challenges	Tools
• Expanding the pool of potential homebuyers and Increasing access to mortgage capital • Sustaining existing homeowners	Direct lending programs
	Mortgage credit enhancements
	Home improvement loan programs
	Equity protection programs
	Homebuyer education and counseling programs
	Foreclosure prevention programs

Challenges:

- Expanding the pool of potential homebuyers and increasing access to mortgage capital

Many prospective urban homebuyers are not able to get financing due to their low credit scores, ratings, or difficulty obtaining appraisals that reflect the value of the property. This is particularly true in weaker market neighborhoods, including opportunity neighborhoods. While few would disagree that lending and appraisal practices were too loose prior to the 2006-2007 housing market crash, it is also arguable that the pendulum has swung too far back, and that risk-averse practices have excessively limited mortgage credit access and forced many credible homebuyers to remain outside the market. It is unclear whether this issue will be addressed at the national level in the foreseeable future; in the meantime, at the local level, innovative methods are needed to enable credit-worthy borrowers living or seeking to live in opportunity neighborhoods to buy homes.

Potential homebuyers in these areas with less than the very good credit scores that would enable banks to view them as good borrowers need access to capital that will allow them to finance their homes. Many of these prospective borrowers are likely to be reasonable credit risks. However, in 2015, only 10% of mortgages were made to borrowers with credit scores of 667 or less[8], although roughly 40% of all households, and roughly 60% of all low and moderate-income households, fell into this category.

However, increasing access is not an easy proposition. Although there are some promising signs of change, it is unrealistic to expect major changes in conventional financial institution practices in the near future, without significant assurances from borrowers. Local public and non-profit organizations that are more willing to lend to individuals with lower credit scores have limited

[8] Urban Institute Housing Finance Policy Center. *Housing Finance at a Glance.* November 2015.

capital resources, meaning that any effort they might make to extend mortgage capital directly could serve only a handful of people. However, these organizations have an opportunity to leverage their dollars by collaborating in ways that attract private capital.

- Sustaining existing homeowners

Along with increasing homeownership, opportunity neighborhoods need to make efforts to retain their existing homeowners. For some households, neighborhoods need to make it attractive for them to remain rather than move to the suburbs. For others, particularly low-income and elderly homeowners, it is a matter of ensuring that their homes remain safe, healthy places to live so they are not forced out by their inability to make needed repairs or improvements. The loss of value that many opportunity neighborhoods have experienced since 2006-2007 has meant that many owners in opportunity neighborhoods are now underwater, or have inadequate equity to refinance or restructure their mortgages and to access funding for needed property improvements.

Tools:

- Direct lending programs

A number of direct mortgage loan programs have been created, either by CDFIs or similar entities using philanthropic or lender capital, or through partnerships between CDFIs or other non-profit entities and conventional lenders.

Unfortunately, only strong, well-capitalized organizations are likely to be able to pursue this direct loan programs. With limited funds available to CDFIs and CDCs, few are likely to follow this model. A more feasible approach, for which a few small-scale models exist, is to form partnerships between conventional lenders and CDFIs, under which the lender provides the capital and the CDFI does the loan underwriting, subject to agreed-upon guidelines. The lender could buy back the loans from the CDFI after mortgagors had demonstrated consistent debt service payment over three years. Many direct lending programs are also combined with various credit enhancements as well, as discussed below.

GOOD PRACTICES

New Jersey Community Capital, a CDFI, has partnered with Affinity Federal Credit Union and the servicer CUMAnet LLC to create a mortgage platform designed to meet the home mortgage needs of low- and moderate-income buyers. The program includes pre-purchase counseling and ongoing support, and currently prioritizes houses that have been rehabilitated in order to ensure that the collateral is of high quality.

The Village Capital Corporation in Cleveland, a CDFI that is a subsidiary of the non-profit intermediary, Cleveland Neighborhood Progress, offers first mortgages to homebuyers who

otherwise would not be able to get a private loan through a partnership with Huntington Bank to provide the second mortgage to leverage their capital further.[9] With a large amount of capital available, CNP is able to provide loans to many first time homebuyers.

The Detroit Land Bank Authority partners with Talmer Bank, Liberty Bank, and FirstMerit Bank to provide capital in different ways to homebuyers in targeted neighborhoods in Detroit,[10] including in some cases loans that include funds to rehabilitate as well as acquire properties.

Talmer Bank and Trust offers mortgage financing and a conditional grant of up to $25,000 that can be used toward renovations to bring the house up to code and then can be forgiven. Liberty Bank offers a financing package that allows for funds to complete home renovations which converts to a permanent mortgage, using a loan-loss reserve funded by JPMorgan Chase & Co. FirstMerit Bank offers down payment and closing cost assistance up to $7,500, low-interest home improvement loans, and an interest rate discount for first time homebuyers for houses in qualifying neighborhoods.

- Mortgage Credit Enhancements

Mortgage credit enhancement refers generally to a program that improves credit quality or reduces the risk of a loan so that a lender is comfortable issuing a loan.[11] This tool can take many forms, of which perhaps the most well-known is second mortgages to homebuyers, which induce a bank to offer a first mortgage by reducing the loan-to-value ratio. Many other innovative approaches exist. Rather than putting capital in play, another strategy is for a public agency or non-profit entity to agree to cover some of the risk a financial institution might incur by lending in high-risk environments.

GOOD PRACTICES

The Trumbull Neighborhood Partnership (the Trumbull County land bank) has established a mortgage co-sign program.[12] TNP worked with Huntington Bank to create a financial product in which the Land Bank co-signs a mortgage with a purchaser who would otherwise be unable to get a loan. After a number of years, which varies based on the credit risk of the borrower, the Land Bank is taken off the mortgage and the homeowner become solely responsible for payments. This program is very small in scale, however, with borrowers carefully screened by both TNP and Huntington Bank.

[9] Village Capital Corporation. http://www.npi-cle.org/placemaking/lending/.
[10] Detroit Land Bank Authority. Building Detroit Auctions. "Financing Available." http://auctions.buildingdetroit.org/Financing.
[11] Rossi, Clifford. "The Unsung Virtues of Mortgage Credit Enhancements." American Banker. March 12, 2013. http://www.americanbanker.com/bankthink/unsung-virtues-mortgage-credit-enhancement-1057406-1.html.
[12] Trumbull County Land Bank. http://trumbullcountylandbank.org/.

Healthy Neighborhoods Baltimore has taken a similar approach, crafting an innovative program that encourages banks to lend in neighborhoods they would most often ignore. Healthy Neighborhoods Baltimore covers the first 15% of losses the banks might incur by providing first mortgages in the targeted neighborhoods. So far, the program has been a success based on positively changing the investment climate and median household income increases.[13]

- Rehabilitation loan programs

Rehabilitation loan programs allow rehabbers (developers or contractors) and homeowners to access capital to make improvements to a property, either in order to sell it to a homebuyer, or, in the case of homebuyers, to purchase a property in need of substantial repair and finance the repairs along with the acquisition of the property. This is particularly important in opportunity neighborhoods, where much of the housing stock available for purchase requires either major repair, or at a minimum, repairs reflecting years of deferred maintenance and replacement by lower-income or elderly owners. A well-known loan product of this sort is the FHA 203(k) program, which allows borrowers to include the cost of renovations in their purchase mortgage.

- Home improvement loan programs

Existing homeowners, particularly low-income owners and elderly owners on fixed incomes, also need capital to keep their homes safe and maintained, although many of these owners have limited ability to take on additional debt. Many municipalities use CDBG funds to assist homeowners with improvements, but these programs tend to be small in scale, both with respect to the number of homes improved and the level of improvement they support.

GOOD PRACTICES

Philadelphia operates the Basic System Repair program, which provides grants to low-income homeowners for repairs to electrical, plumbing and heating systems, and in some cases roof repair or replacement. The program is supported in part by surcharge voted on mortgage and deed recording fees that was used to create the Philadelphia Housing Trust Fund. Because resources are so limited compared with demand, there is currently a 3- to 5-year waiting list for assistance under this program.

The Home Repair Resource Center in Cleveland Heights, Ohio, operates a variety of programs designed to help struggling homeowners maintain and upgrade their properties, combining grants and loans with a strong support system that includes training workshops, counseling and other forms of assistance.

[13] Maryland Sustainable Growth Commission. "Homeownership for Stronger Neighborhoods Statewide. January 20, 2015. http://www.dhcd.maryland.gov/website/about/publicinfo/documents/Homeownership_Stronger_Neighborhoods.pdf.

- Equity protection programs

Equity protection models enable homeowners or homebuyers to buy insurance that protects their investment in their homes from a subsequent decline in the local housing market. Such a program can both increase potential buyer demand as well as encourage existing home owners to remain in the neighborhood, and also mitigates risk to lenders. This model can be implemented by a range of organizations, especially given the gradual increase in strength of the housing market, but requires a solid capital reserve to protect against market declines. Only high-capacity organizations with large capital reserves or a secure source of ongoing program support, as in the Chicago example below, can realistically consider adopting this tool.

GOOD PRACTICES

One of the best-known examples of this program is the Syracuse Neighborhood Initiative.[14] The program was designed to protect against local market fluctuations, insuring against the first 10% of home value loss. However, the program was unable to sustain itself in the face of the collapse of the housing bubble in 2006-2007 and became insolvent.[15]

A similar program, the Southwest Home Equity Assurance, continues to work well in a number of Chicago neighborhoods. Created under a unique Illinois statute,[16] the program is financed by a surcharge on the property tax levy on 1- to 6-unit residences in the equity assurance district, providing an on-going source of revenue serving to replenish capital.[17]

- Foreclosure prevention programs

Foreclosure prevention counseling programs are widespread and well-known. These programs assist homeowners in obtaining loan modifications, such as those available through the federal Home Affordable Modification Program (HAMP) and Home Affordable Refinance Program (HARP). [18] In a few cases, however, CDFIs and others have taken more proactive steps by buying mortgages or properties from banks or, as in the New Jersey program discussed below, the FHA. These programs require considerable capital resources as well as the capacity to both underwrite the new mortgages and provide the credit counselling needed to reduce the risk of

[14] Caplin, Andrew et. al. "Home Equity Insurance: A Pilot Project." May 3, 2003. Yale International Center for Finance. http://ssrn.com/abstract_id=410141.
[15] Brookings Institution. "The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012." http://www.brookings.edu/research/interactives/2014/concentrated-poverty#/M10420.
[16] Southwest Home Equity Assurance. " The Home Equity Program." http://www.swhomeequity.com/aboutus.htm.
[17] Illinois General Assembly. "Illinois Compiled Statutes." http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=818&ChapterID=14.
[18] U.S. Department of Housing and Urban Development. "Avoiding Foreclosure." http://portal.hud.gov/hudportal/HUD?src=/topics/avoiding_foreclosure.

future defaults, but offer far better potential outcomes for homeowners and their neighborhoods than many alternatives.

GOOD PRACTICE
New Jersey Community Capital created the ReStart program under its subsidiary, the Community Asset Preservation Corporation (CAPC). The ReStart program was launched in December of 2012 when NJCC purchased 761 delinquent mortgages from an FHA sale.[19] These mortgages had over $137 million in unpaid balances, far greater than the current value of the properties involved. CAPC restructured the mortgages so that they were no longer underwater, while the homeowners received credit counseling. To date, there have been no defaults.

2) Goal: Remove Blight by Reusing Vacant Properties and Upgrading Substandard Properties

Removing or eliminating blight in opportunity neighborhoods is in itself as important a goal as increasing homeownership or sound, well-managed rental housing. Blight, in the form of vacant or dilapidated properties, is a major deterrent to neighborhood stability, devaluing nearby properties and discouraging existing residents from investing or new homebuyers from moving in.

Table 4: Reusing Vacant Properties and Upgrading Substandard Properties – Challenges and Tools

Challenges	Tools
• Getting owners to restore their properties to productive use • Encouraging buyers to buy and restore vacant or substandard homes • Creating a pool of capable builders, rehabbers and contractors in opportunity neighborhoods.	Providing incentives for home buyers or responsible investors
	Building builder/rehabber capacity
	Linking financial support to regulatory strategies

Challenges:

- Getting owners to restore their properties to productive use

[19] New Jersey Community Capital. Community Asset Preservation Organization. http://www.newjerseycommunitycapital.org/initiatives/capc.

Blight removal is a particularly difficult challenge in neighborhoods where property values are low, because the reuse of the property may not support the cost of the activities needed to make reuse possible, thus making it a poor candidate for credit, as distinct from grant support. This is particularly true where demolition is needed in order to remove blight from a block or neighborhood. These problems are compounded by the difficulties, in many cases, of finding the owners of vacant properties, and convincing owners that their properties are worth restoring. In some cases, even where the property can support the cost of rehab, it is necessary to get the property into more responsible hands before that can take place.

This dictates that capital strategies for removing blight must be: (1) highly market-sensitive, understanding where market opportunities for financing blight removal exist; and (2) closely linked to regulatory strategies designed to motivate either existing owners or new buyers to restore properties to productive use. Regulatory "carrots and sticks," with penalties for not continuing to maintain vacant properties, particularly where they are nuisances to neighbors, can often be linked to financial incentives, including access to credit on reasonable terms.

- Encouraging buyers to buy and restore vacant or substandard homes

Many opportunity neighborhoods have old houses with "good bones" that make them potentially attractive to buyers under the right circumstances. In many such neighborhoods, however, while houses in good condition find buyers, vacant or severely deteriorated houses sit idle because the cost of rehabilitation exceeds their improved market value. Financial incentives to overcome this "market gap" are critical, but often need to be combined with measures that can give prospective buyers assurance, such as the equity protection program discussed earlier, that not only the house, but the neighborhood, represent a good bet for the future. While in most cases the emphasis in this area should be on individuals who buy homes to be owner-occupants, it may also be appropriate to support investor buyers who have demonstrated that they are responsible property owners and landlords.

- Creating a pool of capable builders, rehabbers and contractors in opportunity neighborhoods

Few opportunity neighborhoods contain the pool of experienced, responsible contractors and rehabbers necessary to meet the potential demand for their efforts, particularly if more financial resources to support rehabilitation and construction in these neighborhoods were available. The absence of such a pool means not only that many properties that could be rehabilitated are not, but that such neighborhoods can be victimized by incompetent contractors, fly-by-night operators, and irresponsible property flippers. Similarly, in many neighborhoods, there are investors who tend to be involved on a short-term basis and milk the properties they own to make a quick profit while providing little in the way of maintenance or repairs (and often not paying property taxes), rather than responsible long-term investors.

Tools:

- Incentives for homebuyers and investors

Where the cost of rehabilitation exceeds the post-rehabilitation market value, the resulting market gap needs to be filled if a steady flow of homebuyers and investors is to be attracted to properties in an opportunity neighborhood. For some types of project, tax credits are available to fill the market gap, such as New Markets Tax Credits (NMTCs) for commercial projects, and Low-Income Housing Tax Credits (LIHTCs) for what are generally projects of large-scale new construction or substantial rehabilitation for affordable rental housing.

While there are ways in which NMTCs can be used to support housing development, they tend to be complicated and difficult if not impossible to apply to small-scale, individual rehabilitation of single-family homes or small multifamily properties.[20] Similarly, the structure of the LIHTC and the high transaction costs associated with the program make it far more suitable for relatively large-scale (at least 20 units and preferably far more) projects, although it has been used for projects that involve multiple, scattered-site, single family properties, most notably by the Cleveland Housing Network,[21] which has produced nearly 3,000 scattered-site LIHTC units, a mix of new construction and rehabilitation, since 1987.[22]

The federal Historic Preservation Tax Credit is available only for commercial properties (including multifamily rental projects), and is also designed for relatively large-scale projects. However, Ohio, along with other states, offers tax credits for individual homebuyers restoring either historic properties or properties in historic districts. It is likely that many opportunity neighborhoods could meet the qualifications for being designated as historic districts.

GOOD PRACTICES

The state of Maryland offers a historic tax credit against state income tax obligations for individuals restoring homes in historic districts, which is matched by the city of Baltimore with a 10 year property tax credit. The state also offers a similar tax credit for small commercial properties. This program has been used by thousands of homebuyers and other property owners in Baltimore's nearly 70 historic districts.[23] Maryland's tax credit is notable for its urban focus.[24]

[20] For further information, see "New Markets Tax Credits – Opportunities in Housing." http://www.lanepowell.com/wp-content/uploads/2009/04/gadonj_007.pdf.

[21] For further information on the Cleveland Housing Network, see http://www.chnnet.com/single-family-lease-purchase.aspx.

[22] Ohio Capital Corporation for Housing (OCCH) assists developers with LIHTC law by offering a number of services. Through LIHTC, OCCH has invested in 25,000 units of affordable housing. More information is here: http://www.occh.org/publications/whowehouse.pdf.

[23] http://baltimoreheritage.org/resources/historic-tax-credits/.

[24] Ohio has a state historic preservation tax credit as well that is meant to match and leverage the federal tax credit program, thus allowing developers to layer the financing for these developments.

The Detroit Land Bank runs auctions of vacant properties in carefully selected neighborhoods with distinctive houses and future market potential. Buyers are given access to a package of rehabilitation loans, forgivable loans, and down payment assistance. Major banks, such as JP Morgan Chase, have been partners in this program in order to encourage participation.[25]

- Building Construction & Rehabilitation Capacity

Developers and contractors taking on rehabilitation projects need to be able to access both working capital and the project financing needed for their projects. These firms need support to operate as the small businesses that they are, as well as real estate financing for their projects. Without access to both types of capital, it is unlikely that a stable, productive developer and contractor infrastructure can emerge in opportunity neighborhoods. Here, too, however, there are significant capacity problems. Many small contractors in urban areas lack the managerial capacity--in terms of such things as managing cash flow, managing work flow, scheduling activities and supervising employees--to undertake more than the most modest jobs, . Financing for developers and contractors must be selective, in that it should be clearly linked to the ability to sustain the business and carry out projects. It should also be tied to training programs and technical support to enhance the capacity of businesses and those they employ to carry out rehab and construction activities.

GOOD PRACTICES
New Jersey Community Capital has established The Neighborhood Prosperity Fund (NPF), a permanent revolving loan fund of up to $50 million to provide flexible, long-term lending capital for high-impact neighborhood stabilization projects in distressed communities across New Jersey.[26] This flexible capital is provided to builders and rehabbers to increase their capacity to take on projects they otherwise would not be able to address.

The Chicago Community Loan Fund has a similar program that can provide developers with up to 90% of the cost of acquisition and rehabilitation for 1- to 4-unit buildings.[27]

- Linking financial support to regulatory strategies

A number of communities have used various regulatory strategies to motivate property owners to upgrade substandard and vacant properties. An excellent example is the Baltimore Vacants to Value program, under which the city identifies neighborhoods where the market -- although not strong in an absolute sense -- is strong enough to support private-market restoration of vacant properties. Additionally, with considerable success, it targets enforcement and

[25] Building Detroit. "Auction Program." http://www.buildingdetroit.org/our-programs/auction-program/.
[26] New Jersey Community Capital. "Neighborhood Prosperity Program." http://www.newjerseycommunitycapital.org/initiatives/npf.
[27] Chicago Community Loan Fund. "Overview of Loan Products." http://cclfchicago.org/lending/loan-products.

oversight efforts, including an innovative receivership strategy, aimed at property owners in those neighborhoods. Rather than be subject to substantial penalties, or lose their properties through receivership, more than half of the owners targeted under this program choose to rehabilitate their properties.

While it is almost always preferable, for the owner of a property to restore it to productive use, there are many occasions where regulatory strategies are ineffective in motivating the owner to do so. In that case, the municipality needs to be able to gain control of the property in order to ensure that it is rehabilitated. A number of creative legal tools have emerged in different localities to facilitate this process and are used in conjunction with financing mechanisms, including:

- Vacant property receivership in Baltimore[28], Pennsylvania, Ohio and Massachusetts;
- Taking title through nuisance abatement proceedings in Detroit;[29] and
- Spot blight eminent domain in New Jersey[30] and other states.

Connecting these regulatory strategies with financing tools could significantly enhance the potential of regulation to bring about meaningful blight reduction. These tools could take a variety of forms such as:

- Affordable financing for property owners to restore vacant properties to productive use,
- Affordable financing for receivers given responsibility to restore properties under state vacant property receivership statutes,
- Acquisition (and in some cases rehabilitation) financing for individuals purchasing properties from public entities or receivers, and
- Affordable financing for both homeowners and landlords to address code violations and ensure that their properties continue to provide healthy and safe accommodations.

Existing tools discussed above, including the Cleveland Heights home repair program (p. 21) and the Detroit Land Bank programs (p. 20) can be used in these ways. Our scan of available models, however, strongly suggests that there are major gaps in Ohio neighborhoods, particularly with respect to financing for existing owners of vacant properties and for receivership activities. Many of these activities still rely on one-shot, case-by-case financing rather than financing programs capable of sustaining a significant scale of operations.

[28] http://www.onehousebaltimore.org/.
[29] http://www.buildingdetroit.org/our-programs/nuisance-abatement/.
[30] http://www.hcdnnj.org/index.php?option=com_content&view=article&catid=19:site-content&id=623:spot-blight-eminent-domain.

GOOD PRACTICE

Baltimore created One House At A Time, Inc. (OHAAT), a non-profit entity designed to facilitate the transfer of vacant properties through the city's receivership program to responsible owners who will rehabilitate them and put them back to productive use. Since beginning work as a receiver in 2006, OHAAT has facilitated the transfer and reuse of over 400 vacant properties.

3) Goal: Maintain a Stable Rental Sector

To recognize the importance of home ownership is not to diminish the importance of the rental sector. Large numbers of lower-income households are unlikely ever to become home owners, while many households – far more than many people believe – move back and forth over their life cycle between rental and home ownership. A large rental sector – typically between 40% and 60% of the properties in opportunity neighborhoods – is part of the reality of urban life.[31] Moreover, with isolated exceptions, the great majority of these rental units are unsubsidized private-market housing, often owned by small "mom and pop" landlords. The critical issue is to ensure that the rental sector in opportunity neighborhoods is stable, sound and well-maintained, and that its owners are adequately capitalized and have adequate cash flow both to maintain their properties and to hold them on a long-term basis.

Table 5: Maintaining a Stable Rental Sector – Challenges and Tools,

Challenges	Tools
• Upgrading the quality of rental housing • Supporting responsible, long-term landlord activity	Financing for landlord property acquisition, improvement and refinancing
	Integrating financing into rental property regulation

Challenges:

- Upgrading the quality of rental housing

All rental housing should be safe, clean and well-maintained, with services and facilities of decent quality and reliability. This is important for everyone, but particularly so for lower-income families who have few affordable options in many housing markets. While this is first and foremost a regulatory issue, affordable financing on reasonable terms is often not available to landlords to make improvements, leaving even responsible property managers to defer

[31] Wall Street Journal. "Renters are Majority in Big US Cities." http://www.wsj.com/articles/renters-are-majority-in-big-u-s-cities-1423432009.

necessary repairs or replacements. This challenge is particularly severe for affordable housing properties, including not only private-market rentals but many subsidized housing projects, including both public housing and subsidized housing owned by non-profit entities.

- Supporting responsible long-term landlord activity

Municipalities have the legal means to enforce codes and penalize landlords whose properties fail to meet official health, safety or other standards. While many municipalities still conduct code enforcement on a case-by-case basis driven by tenant or neighbor complaints, a growing number are moving toward more systematic approaches, using rental licensing ordinances, backed up by information systems that track code violations, nuisance complaints, and police calls, along with supportive programs such as training programs, technical assistance, and dissemination of landlord manuals and other good practice guides. Such programs also often offer a variety of incentives for responsible landlords, as well as fee systems crafted to encourage compliance. The goal of all of these elements is not just to foster compliance on a case-by-case basis, but to create a community-wide climate of compliance and responsible rental property ownership. A guide to these approaches entitled *Raising the Bar: Linking Landlord Incentives and Regulation through Rental Licensing* has recently been published by the Center for Community Progress. [32]

A critical part of any such strategy is building a positive relationship between local government and the local landlord community, in which local government recognizes that responsible landlords are a community asset, and landlords recognize that they have a responsibility to the community. CDCs and other community-based organizations also need to build relationships with landlords, as they are a critical part of their neighborhoods' infrastructure. Regrettably, many communities lack such a climate and mutual distrust continues to undermine efforts to build a strong, stable rental sector.

Tools:

- Financing tools for landlords – property acquisition, improvement and refinancing

Landlords, particularly small "mom and pop" landlords, have a difficult time accessing capital for any of their activities. The great majority of small-scale rental acquisitions are financed through buyer equity, hard money lenders, or informal arrangements, encouraging short-term rather than long-term holding. Funding for property improvements is equally hard to come by; many municipalities use CDBG and other funds to provide funds to strapped low-income homeowners for improvements, but few have parallel programs for absentee owners. The ability of landlords to access long-term refinancing, even after a property has shown stabilized

[32] Center for Community Progress. "Raising the Bar: Linking Landlord Incentives and Regulation through Rental Licensing." http://www.metroplanning.org/uploads/cms/documents/raising-the-bar.pdf.

cash flows, is severely limited. Without access to these types of capital on reasonable terms, it is hard to create a pool of responsible long-term landlords and well-maintained properties.

GOOD PRACTICE

The Michigan State Housing Development Authority (MSDHA) offers home improvement loans for landlords for terms of up to 20 years. The program is limited, however, in that it only provides for up to $25,000 for single family homes or $12,000 per unit for multifamily properties to a maximum loan amount of $60,000, and with a relatively high interest rate of 8%.[33]

- Integrating financing into rental property regulation

While it is desirable for the different forms of capital that may be needed by landlords to be generally available, municipalities implementing strategic rental property regulations as discussed earlier have a particularly strong opportunity to link financing to compliance by offering financing to landlords who comply (or make a commitment and take appropriate steps to comply) with municipal standards. Financial and regulatory tools are also linked in the example discussed below, where receivership is used to allow responsible parties to take over the properties.

GOOD PRACTICE

The Community Investment Corporation (CIC) of Chicago has established a partnership with the City of Chicago to identify severely troubled rental buildings. After the City requests the CIC to conduct a feasibility study of the property, the CIC then acts as an agent for the court in taking legal action. If necessary, the court appoints the CIC to be the receiver for a property and make court-ordered repairs. The CIC also offers financing to help landlords upgrade their properties, and does not require that the landlord first be taken to court. The results of this financing assistance are that the great majority of landlords bring their properties up to code. For the remaining properties, CIC is designated the receiver and brings the properties into sound condition.[34]

4) Goal: Foster Business Growth

Retail and other forms of commercial activity can often be a major asset to a neighborhood, but as opportunity neighborhoods have lost population and jobs, many of their commercial districts have declined. Yet as cities develop new economic engines and neighborhoods are revived,

[33] http://www.michigan.gov/mshda/0,4641,7-141-45866_49317_50740---,00.html.
[34] Community Investment Corporation. "Troubled Buildings." http://www.cicchicago.com/about/troubled-buildings/.

opportunities may emerge to stabilize declining areas and revive once-vital commercial corridors and nodes or create new ones. Supporting renewed business growth in opportunity neighborhoods can further revitalization, enhance neighborhood character, and create jobs for area residents.

Table 8: Fostering Business Growth – Challenges, Tools, and Examples

Challenges	Tools
• Encouraging rehab/upgrading of commercial properties • Fostering creation and growth of small and community-serving businesses	Financing resources for owners/rehabbers of commercial properties
	Financing resources for small business start-ups and growth
	Resources to build capacity to package/underwrite small business lending

Challenges:

- Encouraging rehab/upgrading of commercial properties

While discussions of substandard properties are often centered on residential properties, similar issues affect commercial properties. Particularly in many older industrial cities, commercial properties can pose an even bigger challenge than residential due to both the frequently larger extent of abandonment and the often greater difficulty in coming up with viable reuse strategies. Owners or developers of commercial properties need financing that is essentially the same as that needed by owners and developers of residential properties – primarily construction and permanent, or take-out, financing. Addressing these properties requires both careful examination of market conditions and opportunities and creative strategies to reuse them in a productive manner.

- Fostering creation and growth of small and community-supporting businesses.

Apart from the challenges of creating adequate facilities for small business operations in opportunity neighborhoods, small business owners and those seeking to start new businesses face severe financial challenges. Capital for small business activities – start-up capital, financing to fit out and equip business premises, working capital, and funds for expansion and growth – is difficult to obtain, particularly in economically distressed areas.

Tools:

- Financing resources for owners/rehabbers of commercial properties

As noted above, owners of commercial properties, as well as developers or contractors seeking to rehabilitate existing commercial properties (either on behalf of owners or on their own) need access to the same financing tools needed by owners and developers of residential properties, particularly construction loans and permanent or take-out loans. In contrast to the residential sector, where such tools are fairly widespread, if often severely constrained in their application, fewer entities provide funds for commercial facility development.

GOOD PRACTICES

The city of New London, Connecticut operates a revolving loan program to help owners of commercial and mixed-use properties in the city's Enterprise Zone put vacant storefronts and other commercial spaces back to productive use. The city provides loans of up to $50,000 for up to 6 years, where the total project cost is at least $75,000.

The City of Chicago's Small Business Improvement Fund (SBIF) uses TIF revenues to help owners of commercial and industrial properties repair or remodel their facilities for their own businesses or on behalf of tenants. Owners can receive matching grants to cover half the cost of remodeling work, with a maximum grant amount of up to $150,000 for industrial properties and $100,000 for other commercial properties.

- Financing resources for small business start-ups and growth

Individuals seeking to start a new business and small business operators seeking to maintain or grow their existing businesses need a variety of capital resources that are often in short supply. The difficulty of underwriting small business loans, particularly for start-up businesses, should not be underestimated. Small businesses in any location have a high failure rate, even more so in areas where the market for their goods or services is economically precarious. Still, a number of specialized small business lending programs and entities have emerged, often in conjunction with small business incubators or other technical assistance models.

GOOD PRACTICES

One such lending model is that of the Neighborhood Development Center (NDC), located in Minneapolis, Minnesota. The Neighborhood Development Center offers a small business incubator program to support emerging neighborhood-based entrepreneurs. [35] The services of the incubator are paired with a lending program that offers loans to new and existing businesses that otherwise would not be able to access financing, so that borrowers continue to benefit from NDC technical support. NDC provides financing of up to $200,000 per business, although the average loan size is $16,000.[36]

[35] Neighborhood Development Center. "Programs & Services." http://www.ndc-mn.org/programs-services.
[36] Neighborhood Development Center. "How We Work with Entrepreneurs." http://www.ndc-mn.org/creating-success/how-we-work-entrepreneurs.

A similar model is offered by ProsperUS Detroit.[37] Lending is individualized, with flexible terms offered based on the strength of the borrower's business plan and the financial risks associated with the project.

A New Jersey program offers a different model, designed to offer support to a wider range of potential small business borrowers. The Cooperative Business Assistance Corporation (CBAC) provides below-market interest rate loans, technical assistance, and a professional referral network to small businesses in order to create jobs, provide services to residents, and rehabilitate vacant properties. [38] These loans and guaranty programs range between $1,000 and $2 million and are designed to encourage private equity investment and loans from the private sector. CBAC offers loans through both the Micro Loan Program and the Sec. 504 Program of the Small Business Administration. The 504 program, which involves an intermediary or CDFI such as CBAC, is a valuable resource for small businesses seeking funds for real estate and equipment. [39]

- Resources to build Capacity to Package/Underwrite Small Business Lending

A major constraint limiting access to financing for commercial property and small business development is the shortage of CDFIs and other entities with both the mission and the capacity to assemble the resources and carry out the underwriting needed to provide this financing. While many high-capacity CDFIs, such as New Jersey Community Capital and The Reinvestment Fund, offer commercial loans as well as residential and community facility loans, many smaller CDFIs, including most of those in Ohio, tend to specialize in a more limited number of products; for many, commercial lending is not seen as part of their mission. In addition, the difficulty of underwriting commercial property or small business loans is a limiting factor. These loans are much more difficult to underwrite responsibly than residential loans, and often require much more time on the part of highly-qualified personnel. This is one reason why many banks are reluctant to make commercial property or small business loans below some minimum amount, effectively freezing out property and business owners whose capital needs are below that threshold.

[37] ProsperUs Detroit. "Six Key Elements – How We Work." http://www.prosperusdetroit.org/index.php/2011-09-02-11-09-21/how-we-work.
[38] Cooperative Business Assistance Corporation. "About Us." http://www.cbaclenders.com/about.html.
[39] U.S. Small Business Administration. "Real Estate & Equipment Loans: CDC/504." https://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/real-estate-and-eq.

III. Filling the Gaps: Building a stronger role for CDFIs and Other Players

Changing the trajectories of opportunity neighborhoods and putting them on the path toward revitalization requires the engagement of many different types of organizations. While this section focuses on the role of Community Development Financial Institutions (CDFIs) as critical players in this arena and on their constraints and opportunities, many other players have important roles, including Community Development Corporations (CDC), land bank entities, developers, local and state governments, and, of course, banks and other conventional lenders.

As stated at the beginning of this report, there are good reasons to focus on CDFIs and how to build their capacity to make even greater contributions to opportunity neighborhoods. As mission-driven institutions, they have a commitment to working for the improvement of lower-income communities and their residents. They have shown the ability to be creative and flexible in designing and implementing lending tools that meet the needs of their communities. CDFIs are increasingly exploring new ways to fill neighborhoods' credit gaps by building partnerships with local governments, CDCs, and others to meet neighborhood needs. Moreover, CDFIs can play a key role in partnership with conventional lenders with respect to underwriting and servicing loans in opportunity neighborhoods. At the same time, there are challenges limiting the scope and impact of CDFI activities that will need to be overcome in order for them to play a larger role in opportunity neighborhoods in Ohio and elsewhere.

After an initial discussion of the challenges to CDFI activity in opportunity neighborhoods, this section offers recommendations specific to CDFIs as well as related to other key partners that can play critical roles in the revival of opportunity neighborhoods. These recommendations, it should be noted, are preliminary ones, and frame the next phase of this project. Thanks to the continuing support of JP Morgan Chase, GOPC will continue its work in subsequent phases of the project to refine and expand its assessment of the role of CDFIs in opportunity neighborhoods and flesh out the tools and recommendations.

A) Challenges facing CDFIs

In the course of the research for this report, GOPC brought together the most active of Ohio's Community Development Finance Institutions (CDFIs) for a dialogue on the credit needs and gaps affecting community and economic development efforts in opportunity neighborhoods around Ohio.[40]

[40] The meeting proved useful to the participants as well, since this was the first time the Ohio CDFIs had ever convened. While some CDFI's were familiar with each another, meeting participants established new relationships and indicated that the meeting was a very useful exchange of information and ideas, creating the potential for future collaboration.

While all participants indicated that their most significant challenge is a lack of capital, the group also identified a wider and more complex host of challenges. GOPC gained a fuller understanding of the challenges facing CDFIs on which to base recommendations for next steps and areas of further investigation.

- The limited scope of Ohio's CDFI sector

In most cases, Ohio's CDFIs were created to fill a specific credit need facing a particular community, such as real estate or small business development. As a result, most focus chiefly on one area of financing, such as real estate or consumer lending. As the potential role of CDFIs in community development efforts has evolved and neighborhood needs have increased in complexity, CDFIs have struggled to adapt to the changing character of their community's credit needs. Unless other organizations can emerge to fill the gaps, the limited operational scope of most current CDFIs may prevent a full range of financial services from being available in opportunity neighborhoods.

Along similar lines, there may be too few CDFIs operating in Ohio. Although 20 CDFIs are listed on the website of the National CDFI Coalition, many are very small, and others are inactive.[41] Given the number of major urban and metropolitan areas in Ohio, and the extent of need for capital in opportunity neighborhoods, the state has comparatively few substantial CDFIs to rely on.

- The limited capacity of local partner organizations

While CDFIs suffer from severe constraints in the amount of capital they have available to lend, opportunity neighborhoods suffer in turn from lack of capacity to effectively absorb the large amounts of capital that they need if they are to see significant, sustainable change. Because of weak market conditions, many real estate transactions require significant public or philanthropic capital in order to be financially sustainable, while such capital is in extremely short supply. Many borrowers, whether small business owners, contractors or would-be homebuyers, are potentially high credit risks, and need non-financial support and assistance if they are to succeed. Finally, many institutional partners, including CDCs, land banks, and others, have limited operational capacity and limited ability to take on projects.

- The geographic limitations of Ohio's CDFIs

Many of the CDFIs in Ohio are narrowly place-based. While this is not surprising in view of the historically fragmented nature of Ohio's urban areas, it limits their ability to collaborate, to leverage resources, and to provide financial products to unserved areas. While Cincinnati and Cleveland have CDFIs that are primarily focused on neighborhoods in those respective cities, there are a number of areas in the state that are underserved. Toledo, for instance, lacks a

[41] http://www.cdfi.org/wp-content/uploads/2015/02/Ohio.pdf.

similar entity, and Ohio's smaller cities have no such organization that focuses on their needs. CDFIs that will focus on Columbus, Dayton and Youngstown are only just getting set up (in 2015).[42] Expanding the reach of Ohio's CDFI infrastructure to currently underserved communities is a significant challenge.

- The difficulty of building a sustainable financial model

CDFIs as institutions face difficult challenges building sustainable, self-supporting operations while meeting their mission to serve underserved areas and borrowers. This is a problem with many different dimensions. Underwriting and servicing loans in areas where market conditions are weak and uncertain, and for borrowers who may not meet conventional credit profiles, is difficult and time-consuming. When those loans are small, as is necessarily the case for many borrowers in opportunity neighborhoods, it can be difficult if not impossible for the CDFI to earn enough money through fees and interest earnings – while keeping borrowing costs reasonable – to cover the cost of underwriting and servicing the loans.

This problem is exacerbated by the small capital base of most CDFIs, which means that administrative costs, even in a lean organization, are likely to be substantial relative to the amount that the CDFI can generate from its lending activities. While standardizing documentation and procedures, or centralizing back-office and similar activities, may help modestly to reduce costs, there are no illusions that these administrative fixes will solve this problem. This problem is exacerbated by the difficulty CDFIs have syndicating their loans in order to replenish their capital base.[43] The challenge of breaking out of this subsidy-driven model and going sufficiently to scale to serve these neighborhoods' needs remains. GOPC will explore this further in the second phase of this Project.

B) Recommendations

These preliminary recommendations will frame GOPCs next phase of exploration and analysis of ways to address credit gaps, with particular focus on the CDFI role.

1. Deploy CDFI resources strategically in opportunity neighborhoods

CDFI resources are limited. If they are to have a meaningful impact on any distressed community, they need to be used strategically. Such targeted approaches are increasingly being

[42] The three new CDFIs are the following organizations: the Youngstown Neighborhood Development Center (YNDC), the Franklin County Affordable Trust covering Central Ohio, and Citywide in Dayton.

[43] While the Opportunity Finance Network (OFN) has made some efforts to create a secondary market at the national level, many CDFIs have been reluctant to participate, in that the OFN model required that any loans going into the secondary market be secured by participating CDFIs' entire balance sheet, rather than just the loans involved.

seen as critical to the future success of community development efforts generally. They includes a number of distinct strategies:

- Target resources geographically

It is appropriate to identify specific areas to become the focus of CDFI investments, either by specifying neighborhoods, or, as has been done in Slavic Village in Cleveland, identifying target blocks or similar small areas within neighborhoods to become the focus of concentrated investment with the goal of also spurring revitalization in nearby blocks.

- Take a multi-dimensional approach to lending

Community development is not one-dimensional, but involves many different aspects, all contributing to the process of improving peoples' lives and the quality of life in their communities. CDFIs, as they identify target areas, should offer loan capital that focuses on meeting the capital needs of the community across traditional silos, such as a mix of small business and home improvement loans, rather than limiting CDFI activity to a small number of narrowly-focused products. While this raises capacity issues with respect to of the ability of CDFIs to gear up to carry out responsible, effective lending in many different areas, it may be possible to expand capacity through partnerships, both among CDFIs and between CDFIs and other institutions with similar missions, as discussed below.

2. Leverage non-CDFI partners for greater impact

Both new and existing entities are potentially significant partners for CDFIs in neighborhood revitalization. In addition to existing CDCs, some of which – like Youngstown Neighborhood Development Corporation – have significant capacity to deploy capital in their neighborhoods, land bank entities, and in some communities, port authorities are emerging as potential key players.

Ohio has a particularly robust set of land banks, with land bank entities established in over 25 of the state's counties. However, most of the state's land banks are new entities with untested potential, and considerable operating constraints -- many self-imposed.[44] Under the state statute creating land banks, however, they have access to ongoing revenue sources in the form of penalties and interest collected by the county from delinquent tax payments. As a result, and as the activities of the Cuyahoga County Land Bank have shown, land banks have the ability to be proactive, creative players in neighborhood and community revitalization. They represent largely unexplored opportunities for creative partnerships with CDFIs.

[44] For information about Ohio land banks, see Greater Ohio Policy Center. "Taking Stock of Ohio County Land Banks: Current Practices and Promising Strategies." May, 2015. http://www.greaterohio.org/publications/taking-stock-of-ohio-land-banks.

Another group of potential partners is port authorities, which under Ohio law have broad authority to engage in activities that range far beyond the narrow definition of "ports." The Port of Greater Cincinnati Development Authority has become a key revitalization player in a number of Cincinnati's opportunity neighborhoods, providing a variety of financing tools, including bond financing, a down payment assistance program for homebuyers, and a program to enable businesses to finance energy efficiency improvements through a special assessment on their properties. There are approximately 50 port authorities in Ohio, including one in almost every county or city where opportunity neighborhoods are located.[45]

Strategic investment requires strategic partners. CDFIs should reach out to land banks, port authorities, and others to build partnerships that can leverage existing financial and capacity resources.

3. Build CDFI financial and technical capacity

As noted earlier, most Ohio CDFIs are severely limited in both the amount of capital that they can deploy as well as their in-house capacity, particularly when compared to the magnitude of capital needs in the state's distressed neighborhoods and communities. Growing the pool of CDFI resources in Ohio is a critical step to meeting the capital needs of the state's opportunity neighborhoods. This involves answering three critical questions:

- How to most effectively raise additional CDFI capital,
- How to most effectively build CDFI capacity to deploy capital in opportunity neighborhoods, and
- How to strengthen CDFI business models so that they become strong, self-sustaining financing entities.

While these questions will be the principal focus of GOPC's continuing work in the next phase of this Project, we are able to make a few observations. In particular, it seems clear that separate efforts to build capital and capacity by individual CDFIs, while not without value, are likely to be substantially less effective than coordinated efforts at the state level to leverage capital-raising opportunities from the public, philanthropic and private sectors, as well as coordinated efforts to leverage capacity through partnerships and cooperative agreements, both among CDFIs and between CDFIs and other entities.

4. Build capacity of local and neighborhood intermediaries to deploy CDFI capital

While most CDFI and other capital going into opportunity neighborhoods goes directly to individual borrowers, such as homebuyers, developers, or small business operators, the "glue"

[45] See http://ohioportauthorities.com/Ports.aspx. In some counties, the same type of entity exists but is established under a different name, other than 'port authority'.

that links these activities and turns them into successful neighborhood revitalization is usually provided by neighborhood intermediaries, particularly CDCs.

CDC capacity varies widely from one neighborhood and one city or town to another. While Cleveland has a fairly extensive array of CDCs with the capacity to carry out a wide range of projects and strategies as well as a strong citywide intermediary in Cleveland Neighborhood Progress (CNP), other large Ohio cities have far fewer capable CDCs; and most smaller cities have none. As a result, there are many opportunity neighborhoods where, if CDFIs and others had more capital to lend, they would be unable to generate solid, effective projects through which to absorb that capital. Building the capacity of existing CDCs, as well as creating new ones – or identifying existing non-CDC organizations which can expand in keeping with their mission – should be seen as an important local and statewide goal. In addition, CDFIs may want to explore the possibility of creating development subsidiaries that can enhance local CDC capacity, perhaps along the model created by New Jersey Community Capital with its Community Asset Preservation Corporation (CAPC).

5. Build the capacity of land banks and port authorities to play a creative role in neighborhood revitalization

Although land bank entities are still a relatively new tool in Ohio, they have significant potential to be major assets in community revitalization. As noted earlier, unique to Ohio, the state's land banks have an ongoing source of operating revenue independent of what they generate from their own efforts, putting them in a strong position to become creative players in their communities rather than passive receptacles or pass-through vehicles for land transactions. While the Cuyahoga County Land Bank has demonstrated how a land bank entity can become a critical partner in revitalization efforts, others have yet to accomplish much. Some appear reluctant to engage actively in land acquisition, let alone other strategies. Enhancing the capacity of the state's land banks and helping them build strategic links to CDFIs can help both types of entity leverage one another's resources for greater community benefit.

The situation is somewhat different with respect to port authorities. The issue here is less their untried nature or limited capacity as it is their definition of their mission. Most port authorities see their mission in relatively narrow economic development terms. There are notable exceptions, however; Cincinnati has been mentioned above, and the Toledo Lucas County Port Authority operates a community economic development initiative, funding neighborhood-based nonprofit entities to carry out economic development projects.

While the strategies and players involved in transforming land banks and port authorities into strong partners for community revitalization are likely to vary, both entities are particularly well situated to play a larger role in the revitalization of the state's opportunity neighborhoods.

6. Engage the conventional lending sector

Finally, it is important to conclude where this Report began, by stressing the critical role that banks and other conventional lenders need to play in opportunity neighborhoods in Ohio and elsewhere in the United States. As noted, particularly since the collapse of the housing bubble and the Great Recession, banks have become increasingly risk averse. Access to capital by non-traditional borrowers and in neighborhoods with weak and uncertain market conditions has suffered accordingly. This is a particular problem since the capital needs of such borrowers and neighborhoods vastly exceed the potential resources of non-traditional lenders such as CDFIs, even under the most optimistic scenarios going forward.

Recognizing the factors that have led to the current situation, while some signs of change are evident, the lending floodgates are not likely to open that much more widely in the near future. However, significant opportunity and potential exists in creating partnerships among banks, CDFIs, local governments and other players in the community development sphere that provide vehicles for engaging banks in opportunity neighborhoods through credit enhancements as well as capable, credible lending intermediaries, such as CDFIs, that provide on-the-ground retail lending services in those areas.

GOPC believes a process that can begin to bring together all of the key stakeholders with an eye to finding common ground can bring about significant change, in ways that work for all of the parties involved.

IV. Next Steps

GOPC's findings to date have affirmed the critical role that CDFIs can to play in providing capital for the revitalization of Ohio's distressed opportunity neighborhoods, while also revealing a picture of uneven access to resources and limited operational capacity on the part of both lenders and borrowers in these neighborhoods. As we move forward to the next phase of our work, GOPC proposes to delve more deeply into building the role of Ohio CDFIs and addressing the constraints affecting that role. In partnership with Ohio's CDFIs, GOPC plans to examine what they are doing successfully, and what is missing from their efforts and their portfolios, comparing them to the best practices of the strongest CDFIs elsewhere in the United States. We will address such questions as:

- What organizational capacity, tools or practices are required for CDFIs to become more strategic in their lending practices, and address the multiple challenges in Ohio neighborhoods in a more comprehensive, multi-dimensional fashion?
- How can CDFIs form operational and strategic partnerships with other entities, such as land banks, port authorities and local governments, to leverage their resources and their impact on opportunity neighborhoods?
- How can CDFIs and their partners maximize the capital resources that they can bring to bear on opportunity neighborhoods?
- How can CDFIs build more self-sustaining business models, and what size and operational structure can optimize CDFI operational self-sufficiency?
- How can CDFIs, either individually or in partnerships, maximize their ability to diversify their lending activities, and provide a fuller range of financial services to reflect the needs of opportunity neighborhoods?
- How can the capacity of local organizations be built to utilize CDFI capital effectively for neighborhood revitalization, and the capacity of land banks and port authorities to partner with CDFIs to leverage their resources?
- How can banks and other traditional lenders be better engaged in opportunity neighborhoods in ways that work for them and for the neighborhoods?
- What state policy changes would create incentives for increasing CDFI capacity and capability?

Phase II of the Project will focus on the largest and most active CDFIs in Ohio. In addition to looking at case studies in Cincinnati, Columbus, Cleveland and other parts of the state where CDFIs play an important role, GOPC will also look at strong CDFIs in other states as a counterpart to Ohio's CDFI activities. Our goal, is not to do an evaluation of Ohio's CDFIs *per se*, but to use such an assessment as a springboard for developing recommendations and determining how to build a stronger CDFI network in Ohio.

The state policy environment is yet another factor that affects CDFIs and their effectiveness; thus, in the next phase of the Project we will also examine how Ohio's policy environment has affected CDFIs and how it is likely to affect potential strategies for building CDFI capacity and

resources. This portion of the Project may also include a cross-state comparison to understand how different policy environments in other states have limited or supported the growth of CDFIs and what lessons Ohio can learn from this cross-state comparison.

This next phase of this Project will be unique for its systematic assessment of the capacity of a single state's CDFI sector and identification of ways to enhance that capacity. As a result, it is likely to be valuable not only in Ohio, but as a model that can be used in other states to determine how to understand the effectiveness and constraints of their CDFI sectors, and how to build stronger CDFI sectors that focus on the revitalization of the states' distressed neighborhoods.

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This Report was written by Nicholas J. Blaine, former GOPC Project Coordinator, Lavea Brachman, GOPC Executive Director, and Alan Mallach, Senior Fellow at the Center for Community Progress, with editing assistance from Alex Highley, GOPC Project Associate.

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Appendix A

Methodology: Defining and Identifying Opportunity Neighborhoods

Background

While GOPC crafted a unique approach to this Project, it takes into account other studies that have used typologies addressing similar issues.

In an assessment of housing conditions in Flint, Michigan, the Center for Community Progress created a four-tier typology to explain variations in market strength.[46] This typology characterizes markets as "functioning," "constrained," "weak," and "extremely weak." To implement this typology, a range of variables were used: vacancy rate, housing condition, tax foreclosures, sales ratio, median sales price, mortgage ratio, homeownership rate, change in homeownership rate, and the age of the homeowners. Each of these variables had an attached scale ranging from 1-5 based on how well a given neighborhood performed and a composite of these scales determined which tier the neighborhood fell in.

The City of South Bend, Indiana also completed a similar neighborhood typology report[47] with a four-tier approach. The different levels are: "conservation area," "stabilization area," "revitalization area," and "reinvestment area." A number of variables were used to differentiate between these areas: average change in assessed value, percentage of abandoned properties, percentage of tax foreclosed homes sold, percentage of mortgage foreclosures, average sale price, average days on the market, mortgage ratio, vacancy rate, and homeownership rate. The City used a relatively more sophisticated approach than the others to determine which typology best fit the neighborhoods. By calculating standard scores, neighborhoods are ranked based on how they perform to the city average. While this approach certainly uses sound methodology, the final result may be difficult to explain to the lay observer who may not understand the nuances of the statistics behind the calculation. Additionally, it assumes that the city average is the breaking point between neighborhoods that are doing well and those that are doing poorly. If the entire city is facing housing challenges, this may result in some neighborhoods as being classified above where they should be.

In creating a replicable model for neighborhood analysis, GOPC sought to rely on indicators that were easy to identify and with available data. Neighborhood typology models have varied in complexity; aiming for the "Goldilocks, just right" approach was important to the success of this

[46] Center for Community Progress. "Housing Market Conditions Assessment: City of Flint, Michigan." August, 2013. Available upon request.
[47] City of South Bend (IN) Task Force. "Vacant & Abandoned Properties Task Force Report." February, 2013. http://southbendin.gov/sites/default/files/files/Code_FinalVATF_Report_2_red.pdf.

Project. Neighborhood strength can be measured in many ways. Some may prefer to measure the stability of a neighborhood based on the vibrancy of the community, crime rates, or general interest from the community. GOPC takes a market-oriented approach, considering the strength of a neighborhood based on the health of its housing market. The market-oriented perspective makes the most sense for this Project, given that capital access is the primary concern.

Result of the typology was to identify "opportunity neighborhoods," which are not the devastated, heavily disinvested and abandoned neighborhoods that dominate media stories about Midwestern cities like Detroit or Cleveland. These neighborhoods are still intact with some degree of viability, even though they are struggling with poverty, foreclosures, absentee ownership, deteriorating properties, and, in many cases, crime and continued middle-class flight. They are also neighborhoods that are often working through neighborhood-based CDCs and other organizations to rebuild, and in many cases are seeing visible evidence of change, through property improvement, in-migration, and resident engagement.

As discussed in the Background and Methodology section of the Report, an opportunity neighborhood is one in which: the number of households has not decreased at a rate faster than the city average, the poverty rate is stable or improving, and market indicators are better than the city average. The specific data points used to identify an opportunity neighborhood are indexed to their respective city. Therefore, what constitutes an opportunity neighborhood in one city may not always apply to a neighborhood in another city.

Screening Process for Identifying Opportunity Neighborhoods

In order to understand the landscape of opportunity neighborhoods in Ohio, GOPC cast a wide net and examined every neighborhood in eight of Ohio's most populous cities: Columbus, Cincinnati, Cleveland, Toledo, Youngstown, Akron, Dayton, and Warren. While Canton exceeds Warren in population, Warren was included to increase the diversity of the types of cities studied. Across all eight cities, 526 neighborhoods were identified based on local definitions. It is worth noting that because local definitions were used, neighborhood sizes are not uniform, especially when comparing across cities.

Table 1: Summary of Indicators Used During the Screening Process

Screen 1	1. Number of Households
	2. Poverty Rate
Screen 2	1. Vacancy rate
	2. Median Household Income
	3. Owner Occupancy Rate
	4. Median Sales Value
	5. Certified Tax Delinquent Properties
Screen 3	Interviews and other qualitative research: • Institutional presence • Organizational engagement

To understand the relative strength of these neighborhoods and determine which neighborhoods were emerging as "opportunity," they were examined through several screens. The first screen focused on household conditions, the second screen focused on market conditions, and the third screen focused on qualitative conditions that did not surface in the first more quantitative two screens.

Screen 1

Given major population contractions in seven of the eight cities (with Columbus being the exception), the purpose of the first screen was to eliminate neighborhoods that the indicators suggested were doing too poorly to be considered opportunity neighborhoods.

As a matter of course, neighborhoods that had fewer than 200 households were removed from consideration. From a data standpoint, neighborhoods this small would display large variances in any indicator from only very small changes, likely resulting in misclassification.

Next, neighborhoods that showed a higher rate of household loss than the city were eliminated from further study. Those neighborhoods that are losing population faster than the city would not fall into an opportunity category because they would require more public investment to turn around. To avoid eliminating neighborhoods that performed only slightly worse than the city average, but otherwise exhibited the traits of an opportunity neighborhood, a five percent (5%) margin of error was added.

Finally, neighborhoods that had a higher poverty rate than the city and in which the poverty rate grew faster from 2000 to 2010 than the citywide average were removed. An increasing poverty rate does not indicate that a neighborhood is weak in and of itself; however, places with high, increasing poverty likely face additional challenges that put them outside the definition of an opportunity neighborhood. It was necessary to consider both the poverty rate and the change in poverty rate so that neighborhoods that have a high poverty rate but are

improving were not removed from consideration. The same goes for neighborhoods with a lower poverty rate that may be experiencing a small uptick in poverty.

At the conclusion of this first screen, 168 neighborhoods were advanced for consideration in Screen 2. The 358 neighborhood which did not advance are a mix of places that fall below the city average in terms of household decline and poverty rate.

Screen 2

The purpose of the second screen was to rank neighborhoods based on performance according to five selected indicators. This ranking determines the assessed strength of the neighborhood within the opportunity neighborhood typology. The initial screening process was built to eliminate neighborhoods on the low end of performance but not the high end, meaning that some of the strongest neighborhoods for a given city may have made it to this stage of the process.[48]

Neighborhoods were ranked in two different ways. First, a ranking was developed for the current state of the neighborhood based upon the most up-to-date market indicators. These numbers come from 2012-2013 and reflect the most current standing of a given neighborhood. Second, a ranking was developed based on how well a neighborhood had improved (or not) since 2005-2006. To determine a neighborhood's overall rank, the scores for neighborhoods were weighted equally to determine a neighborhood's standing. Neighborhoods were ranked higher, if they had improved the most comparatively and also those with that were relatively weaker. In striking a balance between identifying opportunity neighborhoods that were neither too strong nor too weak at the outset, GOPC assumes that the weakest neighborhoods that passed the first screen are still far from the weakest in a city. In keeping with the goal of this research to identify the neighborhoods that have potential for improvement, it would not make sense to focus on those that already have strong markets.

After the second screen, 56 neighborhoods emerged as opportunity neighborhoods. The 112 neighborhoods that did not advance, much like in the first screen, are a mix of neighborhoods that were either too weak or too strong to be considered.

Screen 3

The purpose of the third screen was to evaluate the neighborhoods list with local input to complement the statistical analysis. Despite using the robust screening tool described here, some neighborhoods may exhibit signs of growth or revitalization but not be identified statistically as opportunity neighborhoods. Conversely, even the best indicators may pick up a neighborhood that has little revitalization potential. Screen 3 was intended to incorporate local features not reflected in data or the indicators. So in addition to neighborhoods that advanced

[48] Of course, neighborhoods that far outpaced other neighborhoods in the rest of their respective city were eliminated at the outset as too strong to be included.

through process based on their demographic and market indicators, the final set of opportunity neighborhoods was adjusted based on conversations with knowledgeable stakeholders on the ground in these communities.

With this additional information, 52 opportunity neighborhoods across these eight cities emerged.

Replicability

The unique methodology used in this report is replicable and can be used to assess the relative strength of neighborhoods in other Ohio cities or even other states. This is possible because opportunity neighborhoods are considered relative to the strength of their respective cities. The only downside to this approach is that opportunity neighborhoods in one city cannot be readily compared to those in another city. For example, many of the neighborhoods that were not quite opportunity neighborhoods in Columbus outperform opportunity neighborhoods in Warren, for example. While this methodology considers both data gathering and on-the-ground conditions and factors not necessarily represented in the data, there is always ample opportunity to conduct further research to better understand neighborhood conditions. A deeper dive can be conducted into each of the neighborhoods explored in this project to better understand their specific characteristics. For future analysis, conducting this type of additional research will help to match neighborhoods with prospective tools that can catalyze new investment opportunities.

Selected Neighborhoods

Table 2: Selected Opportunity Neighborhoods in Eight Ohio Cities

Akron	Lane-Wooster
Akron	Kenmore
Akron	Goodyear Heights
Cincinnati	Over-the-Rhine
Cincinnati	West End
Cincinnati	Downtown
Cincinnati	Lower Price Hill
Cincinnati	Walnut Hills
Cincinnati	Corryville
Cincinnati	Winton Hills
Cincinnati	East End
Cincinnati	CUF
Cincinnati	East Price Hill
Cleveland	Central
Cleveland	Hough
Cleveland	Kinsman

Cleveland	Fairfax
Cleveland	University Circle
Cleveland	Goodrich-Kirtland Park
Cleveland	Tremont
Columbus	Weinland Park
Columbus	Old North Columbus
Columbus	Merion Village
Columbus	Reeb-Hosack
Columbus	Innis Garden Village
Columbus	Southern Orchards
Columbus	Shepard
Columbus	South Campus
Columbus	Dennison Place
Columbus	Foxboro
Columbus	University District
Dayton	Carillon
Dayton	South Park
Dayton	Residence Park
Dayton	Roosevelt
Dayton	Webster Station
Dayton	Shroyer Park
Dayton	Northridge Estates
Toledo	Onyx
Toledo	Englewood
Toledo	Northriver
Toledo	Old West End
Toledo	Lagrange
Toledo	Northtowne
Warren	Central City
Warren	Garfield
Warren	North West
Warren	Kenmore
Youngstown	North Heights
Youngstown	Idora
Youngstown	Brownlee Woods
Youngstown	Rocky Ridge

Appendix B

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