AN ASSESSMENT OF OPTIONS

FOR THE

NORTHEAST INVESTMENT CENTER

PREPARED

FOR

ORGANIZATION OF THE NORTHEAST

BY

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The Woodstock Institute

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past seventeen years, the Institute has carried out applied research and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations and government agencies, including applied research, policy analysis, program design and evaluation.

EXECUTIVE SUMMARY

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The North East Investment Center (NEIC) was established in 1985 as the community development program of the Organization of the North East (ONE). NEIC is a most unusual community development vehicle. Through its association with ONE, NEIC has the potential to serve as a tool for local residents in Uptown and Edgewater to manage reinvestment in their community and exert local control over the development of the community. This is a particularly valuable resource in the Uptown and Edgewater communities because gentrification pressures threaten the future of affordable housing and the ability of current residents to remain in the community.

In October, 1989, ONE contracted with Woodstock Institute to explore strategies for NEIC to continue its mission as a community development program concerned with low- and moderate-income residents. ONE asked the Institute to develop a business plan for alternatives that would demonstrate the degree to which each option would allow NEIC to be self-supporting. This report presents Woodstock Institute's findings and recommendations.

For the last four years, NEIC has excelled as a nonprofit mortgage broker in the communities of Lakeview, Uptown, Edgewater, North Center, Lincoln Square, and Rogers Park. It has consistently outperformed other community-based nonprofit loan packagers and generated a revenue stream that not only paid for the cost of its operations but also contributed significantly to supporting the cost of ONE's advocacy work. The primary source of loan revenues for NEIC has been loans packaged under the Chicago Energy Savers Fund (CESF), a partnership between Peoples Gas, the City of Chicago, and community groups. In 1989, the CESF program ended and community groups began a process of renegotiating its renewal. This change coupled with major organizational changes and financial difficulties at ONE, raised questions about future directions for CESF.

Woodstock Institute's assessment of options for NEIC is that three alternative scenarios exist for the future operation of NEIC. These are: a) to maintain the status quo; b) to expand the range of loan products and redefine target populations; and C) to become an active community development center.

Business scenarios for NEIC were developed for each of the three future directions and are described in this report. These scenarios demonstrate that NEIC does have the potential to remain financially viable as a loan packager while increasing its community development activities. However, it is also clear that its community development activities will not generate the same level of revenue as loan packaging. Therefore grant support will be needed to support the cost of these activities.

Based on Woodstock Institute's analysis of NEIC's future options, the following recommendations are made to ONE:

1. NEIC should be reorganized as a community development center that can be more proactive in working to ensure access to credit for the benefit of low- and moderate-income people.

2. The reorganization should be phased in over an 18-month period to allow time for the hiring of appropriate staff, fundraising and the development of good management controls for the loan packaging services.

3. The ONE board should allow more flexibility in the geographic focus for NEIC so that the target area includes real estate markets that provide sufficient opportunity for low-income people to buy and rent homes.

4. NEIC should develop its relationships with other community-based organizations and lay the groundwork for a strategic planning process coordinated by NEIC that develops consensus about community development goals and the role that each organization can plan in achieving those goals.

5. ONE and NEIC should hire a manager for NEIC that has the management capacity and experience needed by NEIC in its dual role as community organization and business.

6. A solid marketing plan that focuses on NEIC's target population needs to be developed. ONE should explore the possibility of receiving professional marketing advice on both the development of material and the training of appropriate staff in the implementation of a marketing plan.

7. ONE should continue to build understanding and communication links between NEIC's staff and ONE's organizers to ensure that each understands their mutual goals and remain familiar with the current work of each other.

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SECTION I. INTRODUCTION

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Organization of the North East (ONE) is a community organization serving the Edgewater/Uptown communities since 1974. ONE works with residents of these communities to advocate for solutions to such diverse issues as the decreasing supply of affordable housing, escalating energy costs, stimulating community based business ventures, access to credit, and education reform.

The North East Investment Center (NEIC) was established in 1985 as the community development program of ONE. NEIC was founded to help restore stability and affordability in the rapidly changing Uptown/Edgewater residential and commercial real estate markets as a program of ONE. NEIC is overseen by the ONE Board of Directors and the ONE Executive Director supervises the staff and activities of NEIC.

A symbiotic relationship exists between the Investment Center and ONE in carrying out their respective missions regarding community development. ONE's thrust is to organize community action directed at increasing the availability of affordable credit to Uptown/Edgewater residents. The financing programs that have resulted from these efforts have been implemented by NEIC acting as a broker of capital for community residents. Similarly, ONE's organizing efforts identified the difficulties of maintaining affordable housing in these communities amidst the ongoing gentrification pressures. NEIC addresses this problem by managing reinvestment to ensure affordable loans are available to local residents and attempting to influence local capital markets.

Since its inception, NEIC has strived to achieve its mission in three key ways with varying degrees of success. First and foremost, NEIC has functioned as a nonprofit, community-based mortgage broker that packages loans for both lower-income and more affluent borrowers. In this capacity, it has packaged loans to buy and rehab homes and apartment buildings and to install energy conservation measures, such as new furnaces, insulation and storm windows that reduce the cost of owning and managing these properties. As a nonprofit broker, the Center is unique in the community in that it is able to offer its clients access to long-term, fixed rate, below-market loans. As a loan packager, NEIC has developed an excellent track record as a high volume, broad impact lender. In its first four years, it packaged or ensured financing for a total of $8.2 million in loans, thereby impacting a total of 2,125 dwelling units.

Secondly, NEIC has acted as an advocate for those borrowers and projects that are compatible with ONE's mission but marginally bankable, particularly moderate-income, novice borrowers and innovative community development projects. In this role, NEIC prepares first-time borrowers for the requirements of securing credit and the responsibilities associated with owning and managing property. By preparing and presenting strong loan packages, NEIC builds the case for lending to its clients and community development projects that otherwise might be considered marginally credit-worthy by traditional lending institutions.

Although NEIC has been very successful in preparing marginal borrowers for the responsibility of borrowing and none of the loans it has packaged have suffered defaults, it has had a poor track record of reaching out to these borrowers. Working with novice lower income borrowers and advocating for innovative community development projects takes more time than loan packaging for higher income borrowers. Because of the strong emphasis it places on fee generation, NEIC has not targeted these projects or borrowers for marketing or special outreach. The low- and moderate-income borrowers and innovative community development projects NEIC has assisted were identified informally by dedicated staff. Consequently, these deals represent less than 50% of the deals completed by the Center.

Finally, NEIC has been a profit center for ONE and, as such, has performed excellently. Because of its skill at preparing loan applications, the high volume of loans actually completed and closed, and the generous fee structure associated with the energy loans, NEIC generated a fee-for-service revenue stream that completely paid the cost of loan packaging and supported much of the cost of ONE's advocacy activities.

Assessing the Record

In 1988, after NEIC had been successfully packaging loans for three years, the ONE Board of Directors undertook a review and evaluation of its performance. Real estate prices had been steadily increasing in both Edgewater and Uptown throughout the 1980s, but the creation of two historic districts in Uptown, Buena Park and Sheridan Park, caused property values to escalate even more rapidly. Historic district designation and the massive private investment that followed produced more widespread gentrification and displacement than had previously occurred in these communities. This change again raised the question of how best to ensure that decent affordable housing remained available to existing community residents. The ONE Board felt NEIC's performance and future ability to impact on this problem needed to be reevaluated particularly in light of the scheduled expiration of the Chicago Energy Savers Fund (CESF) in 1989.

The ONE Board of Directors commissioned a report from Joanna Brown and Professor Stanley Hallett that examined and critiqued the past operations of NEIC and made recommendations on how to strengthen NEIC's ability to address the issue of affordable housing. The final report, presented to the ONE Board in December 1988, presented a series of options and advocated a stronger community development role for NEIC. However, leadership changes among the staff and Board of ONE, financial difficulties at ONE and proposed changes in the fee structure of a successor CESF program necessitated a further review of NEIC options in 1989.

In October 1989, ONE contracted with Woodstock Institute to explore strategies for NEIC to continue its mission and to develop a business plan for alternative scenarios that would demonstrate the degree to which NEIC could be self-supporting. Specifically, it was agreed that Woodstock would:

1. Conduct four to six interviews to determine the range of existing and potential loan products offered by NEIC and the potential market for them.

2. Analyze existing information on staffing, volume and revenue flow for existing loan programs.

3. Develop a business plan for NEIC.

4. Identify the organizational questions that need to be addressed prior to revising the role of NEIC.

5. Identify potential funding gaps for NEIC as it expands its role as a community development vehicle.

In carrying out its work, Woodstock relied on four sources of data: the interviews it conducted; the Board-commissioned report, **Investing in the Future of Edgewater/Uptown**; the records of lending data maintained by ONE; other financial intermediaries and financial institutions; and the strategic planning work of the Economic Development Committee of the ONE Board of Directors. Data collection was complicated by the fact that specific information on production under the various loan programs had to be gathered from many different sources. In addition, in 1987, ONE had a fire in its office and some records were lost. Every effort has been made to assure accuracy for this report but there may be errors due to inaccurate data. The following report presents a summary of the Woodstock Institute's research, findings and recommendations.

SECTION II. KEY INTERVIEW FINDINGS

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In cooperation with the Executive Director of ONE, Woodstock selected six individuals/organizations to be interviewed regarding NEIC, its past operations and performance, and its options for future services. The persons interviewed represented current and former NEIC staff, a local bank, one community-based development organization, a for profit developer of affordable housing, and a nonprofit housing development organization with loan packaging expertise. All of those interviewed were asked a core set of questions that pertained to the past strengths and weaknesses of NEIC and its potential for the future.

Although information was elicited on a broad range of issues from the persons interviewed, this synopsis will highlight four key points:

- **NEIC's primary value to the community and to ONE**
- **NEIC's strengths and weaknesses**
- **The future market for credit in Edgewater/Uptown**
- **Ways in which NEIC could respond to these market conditions to generate increased loan demand and achieve a greater impact**

Primary Value

Responses to questions regarding NEIC's primary value clearly identified three primary roles with various facets played by NEIC. The primary roles identified by respondents are:

- **NEIC as a community-based loan packager**
  - a high volume, broad impact lender
  - serving middle- and upper-income persons as well as low- and moderate-income individuals
  - not active in providing access to capital to other community-based organizations in Edgewater/Uptown
- **NEIC as an advocate for**
  - the increased availability of credit
  - marginal borrowers and low- and moderate-income communities

- innovative community development projects and loans

- **NEIC as a profit center for ONE**

  - paid the cost of loan packaging

  - provided income to support ONE advocacy work

NEIC's work as a loan packager was commended by those interviewed for the high volume of loans that were completed and the large number of residential units that were impacted. However, some characterized NEIC as deficient because it did not tap all available credit programs for its constituents. Most of those interviewed felt the Investment Center focused disproportionately on the Chicago Energy Savers Fund (CESF) and only occasionally made loans through the Neighborhood Home Improvement Program (NHIP) and the Community Bank of Edgewater (CBE). It was pointed out that NEIC staff had not secured certification as a loan packager for the Neighborhood Lending Programs (NLP) of the three downtown banks, First National Bank of Chicago, Harris Bank, and The Northern Trust. As a result, the range of loan products it could offer its constituents was diminished.

Some of those interviewed felt that NEIC's loan packaging potential was underutilized in terms of packaging loans for other community-based development organizations. These respondents felt ONE and NEIC were perceived as being uncollaborative. Consequently, their services were not sought out by other organizations.

Those interviewed characterized NEIC as fair to poor as an advocate for various constituents and purposes. The interviewees pointed out that NEIC did not target its loan packaging services strategically either geographically or for particular populations. Despite this criticism, those interviewed felt that through ONE and its organizers, NEIC was able to be a strong advocate for increasing the availability of credit in its communities.

Overall, the respondents concluded that NEIC had developed a fair track record at securing new financing programs for its constituents. Individual respondents mentioned as examples the ONE CRA challenge of the Community Bank of Edgewater and the creation and implementation of the bank's neighborhood lending program; the role played by ONE in helping to organize against Peoples Gas for the creation of the CESF, and ONE's participation in the citywide Chicago Reinvestment Alliance. Despite the mention of these activities, many respondents felt NEIC was not strategic or proactive about advocating for increased capital but only acted as opportunities presented themselves.

One other facet of NEIC's advocacy was mentioned. This was the NEIC role in advocating for and/or packaging large community development loans that otherwise would not have been made. Those that mentioned this role felt NEIC had a fair record of performance. Two specifics were mentioned. One was NEIC's advocacy on behalf of a $1.76 million loan from First National Bank of Chicago to create a Single Room Occupancy (SRO) hotel at the Norman Hotel that produced 153 units of affordable housing. The second was the loan package prepared by NEIC for a $1.25 million loan for the Ecumenical Institute for Cultural Affairs building. This loan enabled a pivotal building in the community to be rehabilitated and created new rental space for community service agencies. However, the respondents that mentioned these projects felt that despite its work on these projects NEIC did not fully exploit its unique capabilities to package these types of projects. These respondents thought NEIC had decided that community development loans are difficult and time-consuming and time spent on those deals would reduce the fees collected through the CESF program.

Strengths and Weaknesses

In discussing NEIC's strengths, those interviewed consistently gave the Center high marks for the unique role it has played as a community capital broker. Respondents repeatedly cited the high volume of loans generated by the Center in four years and the large number of housing units it impacted across a number of different communities: Edgewater, Uptown, North Center, Lincoln Square Ravenswood, Lakeview, and Rogers Park.

The respondents named different weaknesses of NEIC but they all related directly to the respondents' sense that NEIC had not fully realized its full potential. The weaknesses enumerated by those interviewed included: the limited number of loan products offered; mediocre marketing efforts; inability to meet the loan packaging needs of other community based organizations because it was uncooperative; lack of activity in promoting community development projects; and absence of targeting the delivery of its services to a particular population and/or community.

Where is the Market for Credit Headed?

The feeling among all respondents was that the demand for credit in the Uptown and Edgewater communities would continue to increase due to the age of the housing stock and high demand for property along the north lake front. Respondents pointed out that demand for credit will be primarily for multifamily housing since apartment buildings comprise the bulk of the housing stock. The person interviewed from the Community Bank of Edgewater reported that 75% of the bank's real estate portfolio is multifamily mortgages and that demand for single family and commercial or industrial real estate loans is much lower. Another respondent thought that the demand for small business lending is also low and may best be left to the Small Business Development Center at Truman College or to CANDO and other economic development groups.

Respondents felt that some market exists for community development loans. One respondent estimated that approximately 12-15 SRO-type structures and 100 large apartment buildings were still available for purchase and moderate rehab in the Edgewater/Uptown communities. Another said that the need to work on these projects was great because for every building saved, five more were lost. Respondents pointed out that these kinds of deals are more time consuming and difficult to do and that it may be difficult for NEIC to secure the staff expertise necessary to complete such deals.

A great deal of concern was expressed about the gentrification of Edgewater/Uptown. Many respondents felt that Edgewater would gentrify quickly because of its concentration of working class families and the perception and reality that public safety was better in that community. Most respondents reported that public safety had deteriorated in Uptown despite the fact that property values had increased. Many of those interviewed reported that developers who have taken a gamble on the community are not securing the high rents that usually accompany gentrification, and, as a result, high vacancy rates exist and some developers have filed for bankruptcy.

How Should NEIC Respond to this Market to Achieve Greater Impact?

When asked what NEIC could do to increase loan demand and its impact on the community, several objectives and strategies were identified by those interviewed. First, respondents felt that NEIC should tighten its focus in two ways. It should target Edgewater/Uptown as a geographic focus and achieve a better penetration of this smaller market than it did in the past. In addition, they recommended that NEIC target its services to low- and moderate-income and/or novice borrowers so that it can reach the people which most need the below-market rate programs. Many respondents felt better collaboration with other community groups would be essential to achieve market penetration with Southeast Asian ethnic groups, the elderly, property owners in trouble and buildings in need of rehabilitation.

The second strategy mentioned by respondents was expansion of the line of loan products offered by NEIC. Specific expansions mentioned by some of those interviewed included the recommendation that NEIC become a certified loan packager for the Neighborhood Lending Programs at the three downtown banks and that NEIC negotiate a new lending agreement with the Community Bank of Edgewater that would include loan products and rates that were more competitive in the market place.

Finally, many respondents felt that NEIC should adopt a broader community development focus in its work by marketing its services to community-based development organizations and by building on existing organizational relationships to extend and tailor NEIC's services to broader community needs. Possible strategies mentioned in this response include targeting HUD-subsidized buildings whose owners plan to pay off their mortgages early, establishing a community land trust, and developing housing cooperatives.

SECTION III. NEIC PAST PERFORMANCE

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For the last four years, NEIC has operated as a nonprofit loan packager in the communities of Lakeview, Uptown, Edgewater, North Center, Lincoln Square, and Rogers Park. During this period, NEIC has excelled as a nonprofit mortgage banker. Although it is only one of sixteen nonprofit organizations that packages Chicago Energy Savers Fund (CESF) loans in the city, NEIC has generated more than 20% of the loan volume financed through this program. In addition, it has packaged 30 loans under the Neighborhood Home Improvement Program (NHIP) and assisted two loans under the First National Bank's Neighborhood Lending Program (NLP). Finally, NEIC negotiated, helped design and packaged loans under the Community Bank of Edgewater's Neighborhood Lending Program.

Although it has consistently outperformed other community-based nonprofit loan packagers, NEIC is not in the same league as for profit mortgage bankers because of the substantially lower volume of loans it produces. However, no analysis of NEIC's role would be complete without an examination of the niche it occupies vis a vis the for profit financial services industry in its service area. Two points are important in this regard. First, within its community, NEIC is the sole source of below-market rate loans for single and multifamily rehabilitation and energy conservation improvements. Access to more affordable credit gives NEIC a specialized approach to the market which cannot be matched by community banks and mortgage bankers.

Second, banks and mortgage bankers prefer to handle large deals and do not cater to small-time borrowers who do not understand financing and may not even be considered credit worthy. NEIC, on the other hand, has served this segment of the population very well. In this market, NEIC screens, educates and advocates for low- and moderate-income and marginal borrowers to improve their chances for securing credit. Consequently, while NEIC can not be considered a high volume provider of financial services in the community areas in which it operates, it has demonstrated in the past four years that it can outperform its direct competitors (i.e., other nonprofit loan packagers) and that it has carved a unique niche for itself among for profit financial institutions.

NEIC Loan Products

NEIC packages loans under four different programs. Three of those represent the vast majority of the loans made. The fourth program, the downtown bank's Neighborhood Lending Program has the potential to represent a greater volume of loans if NEIC completed the steps necessary to be certified as a loan packager by each bank.

The most popular loan program offered by NEIC has been the partnership between Chicago Energy Savers Program (CESF). This program is a creation of Peoples Gas, the City of Chicago and a conortium of community groups. The loans are available for single and multifamily buildings for energy conservation and weatherization. They are made at below-market interest rates for up to a ten year term.

The second most popular program is the Neighborhood Improvement Program (NHIP), a joint effort of Continental Bank, the Illinois Housing Development Authority, and the City of Chicago. These loans are available to families with annual incomes no greater than $45,000 for improvements to 1-4 unit buildings. Loans under the NHIP also have below market interest rates and extended terms.

The third loan program available through NEIC is the Neighborhood Lending Program of the Community Bank of Edgewater (CBE) created in response to a Community Reinvestment Act challenge by ONE in 1986. This loan program offers market rate loans for the purchase and rehab of single family homes, apartment buildings and commercial real estate. This program was designed to provide enough flexibility in underwriting standards to allow NEIC to successfully advocate for borrowers that may not be considered bankable by more traditional standards.

The fourth type of loan program under which NEIC has packaged loans is the First National Bank Neighborhood Loan Program (NLP). This is one of the loan programs negotiated by community groups in 1984 with three downtown banks, First National Bank, Harris Bank and The Northern Trust. A wide variety of real estate loans are available under this program at market rates and there are some loans available to nonprofit organizations at lower interest rates. In order to receive fees for packaging loans under this program, nonprofit organizations have to work with the bank and existing loan packagers to demonstrate competence and become officially certified as a loan packager for the program. NEIC is not yet certified as a loan packager for the First National Bank Program or the similar loan programs at Harris Bank and The Northern Trust. Pursuing certification under these programs would allow NEIC to offer loan programs that complement the ones they currently offer and provide more options for financing for community development projects.

Loan Volume and Units Impacted

Since its founding, NEIC has packaged a total of 297 loans. As shown in Table 1 below, over half of those loans were single family CESF loans and another 66 loans were multifamily CESF loans. Loans made under the CESF program represent 85% of the total number of loans packaged.

TABLE 1

NUMBER OF LOANS BY PROGRAM AND FISCAL YEAR

Program	Fiscal Year 1986	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989	Total
CESF-MF	16*	16	14	20	66
CESF-SF	90*	48	25	25	188
NHIP	NA	1	13	16	30
CBE	NA	5	4	2	11
NLP	NA	1	1	NA	2
TOTAL	**106**	**71**	**57**	**63**	**297**

The volume of loan dollars packaged or assisted by NEIC since 1985 total $8.2 million. Of that amount, the two loans referred by NEIC to the First National Bank Neighborhood Lending Program represent $3 million. Without those large loans, NEIC's loan volume total decreases to $5.2 million. As shown in Table 2, single and multifamily CESF loan dollars totaled $3.1 million which represents almost 60% of the loan dollars packaged (excepting the two large loans under NLP).

TABLE 2

LOAN DOLLARS BY PROGRAM AND FISCAL YEAR

Program	Fiscal Year 1985/86	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989	Total
CESF-MF	$607,648*	$ 358,924	$ 438,182	$ 789,580	$2,194,334
CESF-SF	$388,946*	$ 229,731	$ 164,880	$ 140,219	$ 923,776
NHIP	NA	$ 16,150	$ 190,906	$ 234,951	$ 442,007
CBE	NA	$ 655,600	$ 556,359	$ 441,491	$1,653,450
NLP	NA	$1,760,000**	$1,250,000**	NA	$3,010,000
TOTAL	$996,594*	$3,020,405	$2,600,327	$1,606,241	$8,223,567
TOTAL WITHOUT NLP PROJECTS	**$996,594***	**$1,260,405**	**$1,350,327**	**$1,606,241**	**$5,213,567**

* Volume for a 22 month period commencing in September, 1985. No annual breakout available.

** Each of these amounts represents a single loan. The 1987 loan was not packaged by NEIC but it would not have been made without NEIC's intervention and advocacy.

NA Not applicable

In its four years of operation as a nonprofit loan packager, NEIC has impacted a large number of housing units in the communities in which it works. The loans packaged by NEIC have affected 2,125 housing units (see Table below). By far the majority of these units are in multifamily buildings whose owners received CESF loans. However, at least 235 one- to four-unit buildings received loans packaged by NEIC.

TABLE 3

TOTAL NUMBER OF DWELLING UNITS IMPACTED BY PROGRAM AND YEAR

Program	Fiscal Year 1986	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989	Total
CESF-MF	427	374	318	513	1,632
CESF-SF	NA	65	65	49	179
NHIP	NA	3	22	31	56
CBE	NA	38	51	16	105
NLP	NA	153	NA	NA	153
TOTAL	**427**	**633**	**456**	**609**	**2,125**

Loan Revenues

NEIC generates revenues by charging application and processing fees on each loan it packages. Revenues generated by NEIC from these loan packaging fees total $649,643. Almost 90% of those revenues were generated by the CESF program. The proposed changes in the CESF fee structure for loan packagers which would reduce the amount of fees for each loan would significantly reduce the amount of future revenues which could be generated by NEIC. As shown in Table 4 below, since NEIC was founded the NHIP program generated only $31,100 in revenues and the CBE program generated only $24,801. The one loan that generated fees for NEIC under the NLP program produced $18,900.

TABLE 4

LOAN REVENUE BY PROGRAM AND FISCAL YEAR

Program	Fiscal Year 1985/86	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989	Total
CESF-MF	$111,376*	$ 66,606	$ 80,748	$144,624	$403,354
CESF-SF	$ 71,890*	$ 42,852	$ 30,588	$ 26,149	$171,479
NHIP	NA	$ 1,107	$ 13,445	$ 16,548	$ 31,100
CBE	NA	$ 9,834	$ 8,345	$ 6,622	$ 24,801
NLP	NA	NA	$ 18,900	NA	$ 18,900
TOTAL	**$183,266**	**$120,399**	**$152,026**	**$193,943**	**$649,643**

* Revenue for a 22 month period. No annual breakout available.

NA Not applicable

Staff Productivity

NEIC has operated with a small staff since its inception. In order to ensure that sufficient expertise was available to package loans during peak periods, NEIC has used consultants with the appropriate expertise since 1988. As shown in Table 5 below, NEIC has also reduced the number of support staff each year and functioned in 1989 without any secretarial support. Both arrangements need to be evaluated in terms of their cost effectiveness.

TABLE 5

NEIC STAFF LEVELS BY FISCAL YEAR*

	Fiscal Year 1986	**Fiscal Year 1987**	**Fiscal Year 1988**	**Fiscal Year 1989**
Number of Loan Staff	2	2 1/2	3 1/2	3
No. of Support Staff	2	1/2	1	0
Consultants**	0	0	1/2	3
TOTAL	**4**	**3**	**5**	**6**

* This table lists only those NEIC staff that actually worked on loan packaging services. The ONE Executive Director is not included.

** Consultants are part-time commissioned employees.

An examination of productivity measures for NEIC staff is very difficult. Table 6 presents the annual number of loans and the amount of loan dollars packaged per staff person. There is a direct relationship between the number of loans packaged and the amount of loan dollars. However, this does not account for variations in the level of difficulty of loans. For example, as shown in Table 6 below, the number of loans packaged per staff person dropped only slightly in 1989 but between 1988 and 1989 there was a significant drop in the amount of loan dollars packaged per staff person and in the average revenue generated per staff person. This decrease in productivity may be attributed to the extra staff time spent on the community development project loans during that time.

TABLE 6

STAFF LOAN PRODUCTION MEASURES BY FISCAL YEAR

	Fiscal Year 1986	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989
Amount of Loans Per Staff	22.5	23.7	11.4	10.5
Loan Dollars Per Staff	$ 249,148	$1,006,800	$ 520,065	$ 267,706
Average Revenue Per Staff	$ 45,816	$ 40,133	$ 30,405	$ 32,324

Conclusion

Several key conclusions can be drawn from this review of NEIC's past performance. These include:

- In four years, NEIC packaged or advocated for a total of 297 loans valued at just over $8 million and impacting 2,125 housing units.

- Between 1986 and 1989, NEIC earned close to $650,000 in revenues.

- The multifamily CESF loans accounted for the largest number of loans packaged, impacted on the largest number of housing units and earned the highest loan revenue.

- The largest number of loans were packaged under the single family CESF program.

- The number of loans packaged by NEIC decreased steadily after 1987 as NEIC shifted its emphasis from single family CESF loans to multifamily CESF loans.

- Loan volume peaked in 1988 but loan revenue peaked in 1989 reflecting the laarger fees generated by the multifamily CESF program.

- Despite a total loan volume peak in 1988 and a loan revenue peak in 1989, annual staff productivity declined from 1987 to 1989 when measured in three ways: the number of loan processed per staff person, loan amount per staff person and the average revenue generated per staff person. These decreases parallel the work on the two large community development loans packaged under the NLP. This seems to indicate that these loans were more labor intensive and took more staff time.

SECTION IV. ALTERNATIVE BUSINESS SCENARIOS FOR NEIC

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Woodstock Institute's assessment of options for NEIC based on the information secured from the interviews and a review of the past performance of NEIC is that three alternative scenarios can be decribed for the future operation of NEIC. These are: A) to maintain the status quo; B) to expand the range of loan products and redefine target populations; and C) to become an active community development center. In order to draw distinctions between the three choices and the implications they have for NEIC operations, business scenarios for each alternative have been developed.

It should be pointed out that the three approaches are not necessarily mutually exclusive. Rather elements of different approaches can be shifted between the three alternatives to produce a much broader range of options for NEIC's future operation. The three scenarios can also be viewed as first, second and third phases of the implementation of a strategic plan to convert NEIC to a community development center using resources as they become available.

In developing the business scenarios, separate mission statements, and different product and service mixes are described. Revenues and expenses are projected based on past performance and analysis of the potential market for NEIC's services and products out must be tested against actual experience with the new and redesigned loan products.

The one factor that has influenced these projections significantly is the fact that 1989 was a year of major transition for ONE and NEIC. During that year, the Executive Director of ONE was replaced, leadership on the Board of ONE changed, ONE experienced significant financial instability and negotiations to extend the CESF program began. Organizationally, ONE has stabilized and begun the process of rebuilding its organizing programs and staff. However, in October, the prolonged CESF program negotiation process resulted in a complete shutdown of loans accepted under this program. It is anticipated that loan applications under the CESF program will not be accepted again until June 1990.

It is clear that the organizational transitions experienced by ONE during 1989 and the shutdown of the CESF program will have a major impact on NEIC performance, revenues and staffing patterns during 1990. The shutdown of the CESF program will cause a major drop in revenues at the same time as investments in staff training, marketing and program design need to be made. In order to rebuild NEIC in 1990, significant grant support will be needed to support the cost of operations and the cost of marketing efforts that can help replace the lost revenue from the CESF program. Following a year of rebuilding, a return to revenue generation at levels high enough to support the cost of the loan packaging operation can be expected.

In order to allow for the impact the rebuilding process will have on revenues and expenses during 1990, the projections outlined in each of the scenarios begin with fiscal year 1991. It is anticipated that ONE will have to support NEIC through the transition by fundraising for grant support.

Scenario A: The Status Quo

Mission: To function as a nonprofit, community based mortgage banker that packages loans to borrowers of all income groups in the Lakeview, Uptown, Edgewater, Lincoln Square, North Center and Rogers Park communities. Secondarily, to educate and advocate for moderate-income, unsophisticated borrowers and to occasionally advocate for innovative community development projects.

Service: Package loans to buy and rehab homes and apartment buildings and to finance the installation of energy conservation measures that reduce the cost of owning and managing such properties. Secondarily, to assist potential borrowers with no or poor credit records to understand the responsibility of credit and plan for repayment of their loan and to advocate for their loans with borrowers.

Products: The bulk of the loans packaged by NEIC (over 80%) have been applications for the Chicago Energy Savers Loan Fund. This loan product has been very popular because of its below-market rates and extended loan terms as well as the high demand for energy conservative loans. Under Scenario A, these products would continue to be the focus of NEIC's loan packaging work and no effort would be made to expand the current menu of products. Since NEIC has not made any loans through the Community Bank of Edgewater (CBE) in the last year and a half, this scenario assumes that loans under this program are not a product offered by NEIC.

Similarly, since NEIC is not a certified loan packager for the downtown Neighborhood Lending Programs, these products have also been omitted. The Neighborhood Home Improvement Program (NHIP) is listed third because NEIC has consistently originated a smaller number of loans through this program. The loan products offered under this scenario are as follows:

- Chicago Energy Savers Fund (CESF)--Multifamily
- Chicago Energy Savers Fund--Single Family

- o Neighborhood Home Improvement Program (NHIP)

Market Analysis: Three key factors appear to indicate that loan demand in Edgewater and Uptown will remain stable for the next several years. First, the demand for single family homes in communities along the Lake and close to the Jackson Park-Howard line should remain strong due to proximity to the lakefront and good transportation. As property values in Lincoln Park and Lakeview continue to escalate, buyers looking for homes that are more reasonably priced will consider Edgewater and may consider Uptown. Second, the housing stock in Uptown and Edgewater is older and will continue to need the kind of maintenance and repair that older buildings require. Therefore, demand for home improvement, energy conservation and rehabilitation loans can be expected to remain strong. Finally, the historic districts in Uptown can be expected to continue to encourage the gentrification of Uptown which will also contribute to the demand for housing loans.

There are two possible negative influences that could weaken the demand for loans in Uptown. The real estate market in Uptown will be greatly influenced by changes in either the perception or the reality of increases or decreases in crime. In addition, the future of the development projects that are currently experiencing financial difficulties will have an effect on this market, particularly if any of those projects declare bankruptcy.

NEIC has continued to have a high demand for the Chicago Energy Savers Fund loans due to their attractive terms and the fact that NEIC is the sole source for these loans along the north Lakefront. Other nonprofit community-based organizations, specifically Edgewater Community Council, North Side Community Federal Credit Union, and the Edgewater Development Council, and many for-profit mortgage bankers and financial institutions also have the capacity to package loans in this market, however, it is assumed that they will not have direct access to the below-market rate products that NEIC offers. Consequently, Scenario A assumes that NEIC will continue to have a lock on this market in the northeast portion of Chicago.

Table 7 shows a projection of the number of loans that NEIC can be expected to generate in the next three years under Scenario A. The estimates are based on an assumption that the number of loans generated in 1991 will be the same as 1989 but will increase by 30% each year thereafter. This rate of increase is consistent with the historic rate of increase in the CESF-MF program during times when staffing and loan terms remained constant throughout the period.

TABLE 7

PROJECTED LOAN VOLUME 1990-1992--SCENARIO A

	Historic Experience				**Projected Volume**		
	Fiscal Year 1986*	**Fiscal Year 1987**	**Fiscal Year 1988**	**Fiscal Year 1989**	**Fiscal Year 1991**	**Fiscal Year 1992**	**Fiscal Year 1993**
CESF-MF	16	16	14	20	20	26	34
CESF-SF	49	48	25	25	25	33	43
NHIP	NA	1	13	16	16	21	28
TOTAL	**65**	**65**	**52**	**61**	**61**	**80**	**105**

* Records for this period are available only on a twenty-two month basis.

NA Not applicable

Loan Revenue: While loan demand for the CESF is projected to be high in the future, its potential for supporting ONE activities will be severely curtailed due to two critical changes in the program's design: the fee structure and the eligibility criteria under the singlefamily program. In the past, ONE received revenue equal to 18% to 20% of the loan dollars it packaged under this program. In the future, loan packager fees for the multifamily program will be calculated as a flat rate based on the building's size. Specifically, the loan packager will receive $3,325 for every loan on a 5-19 unit building and $3,850 for every loan on a 20-45 unit building. This fee structure will have the effect of reducing revenues from the CESF multifamily program by more than 50%. For single family loans, the loan packager fee will be reduced from 18% to 12%, a revenue reduction of 33%.

Single family revenues to NEIC/ONE may be further reduced by the fact that 67% of all future borrowers citywide will need to meet Community Development Block Grant (CD) eligibility criteria. If the 67% goal is imposed on individual loan packagers, NEIC's revenue under the single family CESF may drop to zero since it is not clear that NEIC has packaged any loans in the past for CD-eligible borrowers. In fact, given the escalating single family property values along the north lakefront, CD-eligible borrowers may be priced out of this housing market.

The possible effects of these changes are illustrated in Table 8. This table compares actual 1989 loan revenue with projected 1991 loan revenue using a projected stable loan volume and applying the new fee structure and eligibility requirements. Two estimates of 1991 projected revenue are presented. The first, 1991A, assumes the changes in fee structure have been implemented but that the CD-eligibility criteria have not been imposed on individual loan packagers such as NEIC. The second, 1991B, assumes that both the new fee structure and CD-eligibility requirements are in effect.

TABLE 8

PROJECTED REVENUES UNDER NEW CESF PROGRAM GUIDELINES

Program	Fiscal Year 1989 Loan Volume	Fiscal 1989 Revenue	Fiscal 1991A Revenue	Fiscal 1991B Revenue
CESF-MF	$789,580	$144,624	$ 73,325*	$ 73,325*
CESF-SF	$140,219	$ 26,149	$ 16,826**	$ 0
TOTAL	**$929,799**	**$170,773**	**$ 90,151**	**$ 73,325**
PROJECTED REVENUE AS A PERCENTAGE OF 1989 REVENUE		100%	52.7%	43%

* Based on loan volume of 20 loans, 7 of which are for 15-19 unit buildings and 13 of which are for 20-45 unit buildings.

** Based on 1989 loan volume of $124,412 and packaging fees of 12%.

Loans under the NHIP program should also continue to be in great demand in the future. Because this program allows borrowers to secure loans of up to 85% of appraised value, this loan product is most popular with people who have owned their homes longer and have equity in their homes. These borrowers are also more likely to be elderly and lower income people.

Table 9 illustrates NEIC projected revenues from the NHIP. The projected revenues are based on an assumption that loan volumes in 1991 remain at 1989 levels and increase by 30% each year after. These projections assume an average loan amount of $14,700 (based on past program performance). The NHIP program is structured to allow NEIC to collect a $300 application fee for each loan and a processing fee of 5% for each loan closed.

TABLE 9

PROJECTED NHIP LOAN REVENUE 1991-1993--SCENARIO A

Fiscal Year 1989 Actual Loan Volume	Fiscal Year 1989 Actual Revenue	Fiscal Year 1991 Projected Revenue	Fiscal Year 1992 Projected Revenue	Fiscal Year 1993 Projected Revenue
16	$16,548	$16,548	$17,596	$18,630

Potential Income: The changes in the CESF fee structure have serious implications for NEIC's potential income. Given the impact of these changes on NEIC's revenues, under Scenario A it appears that NEIC will no longer be able to significantly support the advocacy work of ONE. Table 10 presents total revenues under Scenario A and compares those to 1991 revenues. As this Table shows, 1991 revenues are projected to be just over half of 1989 revenues.

TABLE 10

PROJECTED REVENUE 1990-1992--SCENARIO A

	Fiscal Year 1989 Actual Loan Volume	Fiscal Year 1989 Actual Revenue	Fiscal Year 1991 Projected Revenue	Fiscal Year 1992 Projected Revenue	Fiscal Year 1993 Projected Revenue
CESF-MF	20	$144,624	$ 73,325*	$ 95,375	$125,125
CESF-SF	24	$ 26,149	$ 16,826**	$ 20,614	$ 26,861
NHIP	16	$ 16,548	$ 16,548	$ 17,595	$ 18,630
TOTAL	**60**	**$187,321**	**$106,699**	**$133,584**	**$170,616**
PROJECTED REVENUE AS A PERCENTAGE OF 1989 REVENUE		100%	57%	71%	91%

* Based on loan volume of 20 loans, 7 of which are for 15-19 unit buildings and 13 of which are for 20-45 unit buildings.

** Based on single family loan volume of $140,219 generating fees at the rate of 12% for NEIC. Assumes that the CD-eligibility criteria are not in effect.

Staffing Levels and Costs: Scenario A assumes that NEIC does not package or spend significant amounts of staff time on complicated community development loans nor does it substantially increase the number of loans it packages or the amount of assistance it renders to novice borrowers.

Therefore, it is assumed that the 1987 staff productivity level of 22.5 loans per person would apply to the 1991-1993 projections.

In order to implement Scenario A, NEIC will need a total of 2 full-time loan packagers in 1991, 2.5 packagers in 1992 and 3.5 packagers in 1993. In addition, administration would require .5 of a full time person to oversee and manage the program and .5 of a full time person to provide secretarial services. The loan packagers do not all need to be NEIC employees but can include a mixture of staff and consultant(s) especially in those years when the number of loans does not warrant a full time packager.

Table 11 presents the staffing patterns for each year with projected costs based on actual 1991 budget figures provided by ONE with a 5% adjustment for inflation in 1992 and 1993.

TABLE 11

PROJECTED STAFF COST 1990-1991 - SCENARIO A

	Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993	
Position	**Number**	**Cost**	**Number**	**Cost**	**Number**	**Cost**
NEIC Director (.5 admin and packaging)	1	$35,000	1	$36,750	1	$ 38,875
Loan Packagers	1.5	$37,500	2	$52,500	3	$ 82,687
Secretary	.5	$ 9,000	.5	$ 9,450	1	$ 20,000
Total Staff Cost	3	$81,500	3.5	$98,700	5	$141,562

Scenario B: Expanded Programs, Refined Target Population

Mission: To enhance the options and opportunities of low- and moderate-income, and unsophisticated borrowers in the Edgewater-Uptown communities to secure housing credit.

Secondarily, to provide eligible borrowers in these communities access to below-market rate energy conservation, rehabilitation and home purchase loans through NEIC's loan packaging services.

Service: Package loans to buy and rehab homes and apartment buildings and to install energy conservation measures that reduce the cost of owning and managing such properties. Emphasize packaging loans, especially home purchase loans, for potential borrowers with no or poor credit records to help them establish their worthiness as low-risk borrowers and to increase their understanding of the responsibilities of credit.

Products: Under this Scenario, NEIC would expand the range of loan products it offers to include loans from a renegotiated agreement with CBE and loans under the NLP with the three downtown banks. NEIC would begin to aggressively market the availability of these loan products to the target market in Edgewater-Uptown. A greater emphasis on home purchase loans would be developed to help increase the number of moderate-income homeowners in the community. Because of escalating real estate prices and the renewed emphasis on low- and moderate-income borrowers, the focus would include helping these families/individuals purchase 3-4 flats where the rental income supplements the purchaser's income.

- o Chicago Energy Savers Fund-Multifamily & Single Family (CESF)
- o Neighborhood Home Improvement Program (NHIP)
- o Community Bank of Edgewater (CBE)
- o Neighborhood Lending Programs (NLP)

Market Analysis: Scenario B may be difficult to implement because this Scenario reflects the ONE Board desire to restrict NEIC to focusing on the Uptown and Edgewater communities. The escalating property values in these two communities may have priced moderate-income home buyers out of the market. Similarly, the fact that NEIC's geographic focus would exclude the more moderately priced communities of North Center, Lincoln Square and Rogers Park makes this a difficult strategy to implement.

Successful implementation of this alternative is going to depend upon an aggressive marketing program; better outreach and relationships with ONE's constituents and those organizations in the community that can serve as a source of potential borrowers; and, better relationships with realtors so that a more extensive knowledge of buildings that are coming on the market can be developed. Many ethnic residents, especially the Vietnamese and Ethiopians, who were resettled in the community during the last decade and a half are now reaching a level of financial security that allows them to purchase property. Many would like to remain in the Uptown and Edgewater communities but need assistance in finding affordable housing and the process of nvaigating the buying property. ONE could fill this void by establishing a referral system with the Mutual Aid Associations that would help connect potential homebuyers with properties for sale and affordable credit products as well as assisting in overcoming language barriers.

It can be anticipated that demand for the below market priced CESF loan products will remain high. One new target population for weatherization improvements are elderly property owners served by Voice of the People through their Senior Handicapped Program. These lower income residents of Uptown and Edgewater frequently request assistance to implement energy improvements to their homes. Some may qualify as CD eligible borrowers under the proposed CESF single family loan program.

Table 12 presents a projection of the number of loans the NEIC can be expected to generate under Scenario B during the three year period 1991-1993.

TABLE 12

PROJECTED LOAN VOLUME 1991-1993 - SCENARIO B

	Historic Experience				Projected Volume		
	Fiscal Year 1986*	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993
CESF-MF	16	16	14	20	20	26	34
CESF-SF	49	48	25	25	25	33	43
NHIP	NA	1	13	16	16	21	28
CBE	NA	5	4	2	5	7	10
NLP	NA	1	1	0	1	2	3
TOTAL	**65**	**65**	**52**	**61**	**67**	**89**	**118**

* Twenty-two month volume.

NA Not applicable

Loan Revenue: If an aggressive marketing campaign is undertaken by NEIC, demand for the loan products included in this scenario should continue to increase. If successful, it is also likely that NEIC will generate revenues in excess of its cost of operations. As shown in Table 13, only in 1991 are revenues projected to be significantly lower than 1989, a year in which NEIC was able to support the cost of its operations and provide some revenue to ONE to support its advocacy work.

TABLE 13

PROJECTED REVENUE--SCENARIO B

Program	Fiscal Year 1989 Actual Loan Volume	Fiscal Year 1989 Actual Revenue	Fiscal Year 1991 Projected Revenue	Fiscal Year 1992 Projected Revenue	Fiscal Year 1993 Projected Revenue
CESF-MF	20	$144,624	$ 73,325*	$ 95,375	$125,125
CESF-SF	25	$ 26,149	$ 16,826**	$ 20,614	$ 26,861
NHIP	16	$ 16,548	$ 16,548	$ 17,595	$ 18,630
CBE	2	$ 6,622	$ 6,622	$ 7,500	$ 9,000
NLP	0	0	$ 22,750	$ 45,500	$ 68,250
TOTAL	**60**	**$193,194**	**$136,071**	**$186,584**	**$247,866**
PROJECTED REVENUE AS A PERCENTAGE OF 1989 REVENUE		100%	70%	97%	128%

* Based on loan volume of 20 loans, 7 of which are for 15-19 unit buildings and 13 of which are for 20-45 unit buildings.

** Based on single family loan volume of $140,219 generating fees at the rate of 12% for NEIC. Assumes that the CD-eligibility criteria are not in effect or can be achieved.

Staffing Needs and Cost: The staff time needed to successfully implement Scenario B would be greater than that needed for Scenario A. In addition to packaging more loans and adding two additional loan products, staff will need to implement an ongoing aggressive marketing effort to identify borrowers within the target communities. Therefore, there will be a drop in staff productivity. It is assumed that the staff productivity level would be 15 loans per staff person.

In order to implement Scenario B, NEIC would need a total of 2 loan packagers in 1991, 3.3 packagers in 1992 and 4.4 packagers in 1993. It is assumed that loan packagers would share in the marketing effort and therefore the same level of administrative staff time would be necessary. Table 14 presents the staffing patterns for each year with projected costs based on actual 1990 budget figures provide by ONE with an annual 5% budget adjustment.

TABLE 14

PROJECTED STAFF COST 1991-1993--SCENARIO B

	Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993	
Position	**Number**	**Cost**	**Number**	**Cost**	**Number**	**Cost**
NEIC Director (.3 admin, .3 packaging and development)	1	$35,000	1	$ 36,750	1	$ 38,875
Loan Packagers	2	$50,000	3.3	$ 86,625	4.4	$121,275
Secretary	.5	$ 9,000	.5	$ 9,450	1	$ 9,922
Total Staff Cost	3.5	$94,000	4.8	$132,825	6.4	$170,072

Scenario C: A Community Development Center

Mission: To function as a nonprofit, community advocate for affordable credit for community development projects and loans that benefit the low-and moderate-income residents of Uptown and Edgewater. Secondarily, to assist low-income and novice borrowers to better understand the responsibilities of credit and for profit lenders to better understand how to make credit available to those credit worthy borrowers that do not meet traditional underwriting standards.

Service: Loan packaging for low- and moderate-income individual borrowers and for nonprofit community developers. Education and assistance to low-income and novice borrowers. Reinvestment partnership with other nonprofit community organizations to proactively secure additional capital for small business lending and other community needs.

Products: NEIC would offer loan packaging for all existing loan products and would seek to expand the range of products and sources of credit and capital to include small business loans and venture capital including referrals to existing small business loan programs. NEIC would work with other community organizations to approach nontraditional sources of capital such as insurance companies to secure a source of long term capital for community development loans and projects.

The loan products offered under this scenario would include:

- Chicago Energy Savers Fund (CESF)
- Neighborhood Home Improvement Program (NHIP)
- Community Bank of Edgewater Program (CBE)
- Neighborhood Lending Programs (NLP)
- *Small Business Loan Program (SBL)
- *Venture Capital Fund (VCF)

* Not yet developed

The services offered under this scenario would include:

- Loan Packaging
- Borrower Education

- o Advocate for Credit for Community Development Projects
- o Administration of Capital and Credit Programs
- o Convener of and/or staff support for collective efforts to foster community development

Market Analysis: This strategy is the most difficult and resource consuming one to implement. There are three factors that will make this difficult. First as discussed above, the real estate markets in the Uptown and Edgewater communities may be too expensive to package loans for low- and moderate-income people in sufficient volume to support the cost of the services provided. Second, a shift in focus that emphasizes community development lending and advocacy for low-and moderate-income residents will result in more labor intensive deals. Therefore, staff productivity will go down and this will effect the net revenues produced by NEIC. Finally, the role of staffing a collective community development strategy will be time consuming. In part this role will be more difficult in the Uptown and Edgewater communities because of the active real estate market.

Two local developers (one nonprofit and one for profit) interviewed for this project pointed out the scarcity of moderately priced properties in the area by citing the fact that not one Tax Reactivation Property survived the Cook County 1987 tax sale. The County was not able to outbid private developers on any of the buildings in these communities. The developers interviewed pointed out that neither Buena nor Sheridan Parks have any large size apartment buildings left to be purchased.

The for-profit developer felt that there are still 12-15 single room occupancy type structures and approximately 100 structures with 30 or more dwelling units available at moderate prices in the community. However, this developer also reported that he has branched out into other communities in the city because he rents to low- and moderate-income people and he feels they have been priced out of the north lakefront communities. The nonprofit developer felt that ONE should explore the feasibility of creating a community land trust that would begin to acquire vacant land in the community and hold it as a way of reserving property for future affordable housing development. Other possible approaches to the market included: assistance to property owners who are in over their heads; work with block clubs, tenants and landlord associations to identify buildings in need of repair and bring them into NEIC for assistance; and advocating for more services and development financing/grants from local and state government.

It is very difficult to project the volume of loans that can be expected to be packaged under Scenario C. The assumption has been made that 1991 loan volume would remain at 1989 levels. It can also be assumed that in future years a 30% increase in loan volume under current programs would be very difficult without massive staff increases. Therefore, a more modest 10% increase is projected for the CESF and NHIP programs. It is projected that the NLP, SBL and VCF program would experience greater increases because they are more in line with the focus on community development in Scenario C. For the new small business loan program and the possible venture capital program, it is assumed that volume would begin in 1992 and would have a 15% increase in 1992. Table 15 below illustrates the projected loan volume 1991-1993.

TABLE 15

PROJECTED LOAN VOLUME 1991-1993--SCENARIO C

	Historic Experience				**Projected Volume**		
	Fiscal Year 1986*	**Fiscal Year 1987**	**Fiscal Year 1988**	**Fiscal Year 1989**	**Fiscal Year 1991**	**Fiscal Year 1992**	**Fiscal Year 1993**
CESF-MF	16	16	14	20	20	22	24
CESF-SF	90	48	25	25	25	28	31
NHIP	NA	1	13	16	16	18	20
CBE	NA	5	4	2	2	3	4
NLP	NA	1	1	0	1	2	3
Small Business Loans (SBL)***					0	5	6
Venture Capital Fund (VCF)***					0	1	2
TOTAL	**106**	**71**	**57**	**63**	**64**	**79**	**90**

* Twenty-two month volume.
*** Not yet developed
NA Not applicable

Loan Revenue: Although Scenario C will require more staff time than either of the other Scenarios, it is not likely that staff productivity will decrease if good management controls are maintained. As shown in Table 16 below, revenues do fall in 1991 and 1992 due to the change in the fee structure of the CESF program. However, by 1993 they are again at 1989 levels due to the projected increases in loan volume and in projected income from the two new small business lending programs.

TABLE 16

PROJECTED REVENUE--SCENARIO C

Program	Fiscal Year 1989 Actual Loan Volume	Fiscal Year 1989 Actual Revenue	Fiscal Year 1991 Projected Revenue	Fiscal Year 1992 Projected Revenue	Fiscal Year 1993 Projected Revenue
CESF-MF	20	$144,624	$ 73,325*	$ 81,025	$ 88,200
CESF-SF	25	$ 26,149	$ 16,826**	$ 17,491	$ 19,365
NHIP	16	$ 16,549	$ 16,548	$ 18,960	$ 21,034
CBE	2	$ 6,622	$ 6,622	$ 7,500	$ 9,000
*NLP	0	0	$ 22,750	$ 45,500	$ 68,250
SBL***	NA	NA	0	$ 2,500	$ 3,000
VCF***	NA	NA	0	$ 500	$ 1,000
TOTAL	**61**	**$193,194**	**$136,071**	**$189,584**	**$251,866**
PROJECTED REVENUE AS A PERCENTAGE OF 1989 REVENUE		100%	70%	98%	130%

* Based on loan volume of 20 loans, 7 of which are for 15-19 unit buildings and 13 of which are for 20-45 unit buildings.

** Based on single family loan volume of $124,412 generating fees at the rate of 12% for NEIC. Assumes that the CD-eligibility criteria are not in effect.

*** Because this program is not yet designed, a modest assumption

Staffing Needs and Cost: Scenario C is the most staff intensive of the three scenarios. Not only will staff have to increase the number of loans packaged to realize the level of revenues needed to support NEIC but the emphasis on community development activities will decrease staff productivity and have a direct impact on revenues. It is assumed that staff productivity would fall to 10 loans per staff person.

In order to implement Scenario C, NEIC would need a total of four loan packagers in 1991; 5.4 loan packagers in 1992 and 6.5 loan packagers in 1993. The proactive nature of NEIC under Scenario C would require a closer relationship with ONE and its organizers. Also some of NEIC's advocacy work could be done by the ONE director. For this reason, 50% of the ONE director's time is included in these projections.

TABLE 17

PROJECTED STAFF COST 1991-1992 --SCENARIO C

	Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993	
Position	**Number**	**Cost**	**Number**	**Cost**	**Number**	**Cost**
ONE Director	.5	$ 14,700	.5	$ 15,435	.5	$ 16,206
NEIC Director (.3 admin .3 packaging and .3 program development)	1	$ 35,000	1	$ 36,750	1	$ 38,875
Loan Packagers	4	$100,000	5.4	$141,750	6.5	$179,156
Secretary	1	$18,000	1	$ 18,900	1	$ 19,844
Total Staff Cost	6.5	$167,700	7.9	$212,835	9	$254,161

SECTION V. PROJECTED INCOME/EXPENSE STATEMENTS

SECTION V. PROJECTED INCOME/EXPENSE STATEMENTS

The following Income/Expense projections are presented to clarify which of NEIC's future options are financially self-sufficient and to what extent desirable but unprofitable activities need to be supported through foundation grants. It should be noted that the ONE board of directors may want to support the NEIC director through grant support to make clear their concern that NEIC shift its emphasis away from fee generation and towards community development.

Overhead Expenses

In addition to the staff costs outlined for each scenario above, NEIC must pay the cost of its office space and associated overhead. The ONE's 1990 budget was used as a basis for computing overhead expenses for 1991-1993. ONE is currently negotiating its office lease and is confident that the per foot rental will decrease in 1990. This decrease is reflected in the projections. However, because Scenarios B and C require more staff than Scenario A, a larger report and utility cost is included for these Scenarios.

Finally, significantly higher marketing costs will be incurred in Scenario B and C. This is reflected in the projections for advertising and postage.

TABLE 18

OVERHEAD FOR NEIC

	Fiscal Year 1990	Fiscal Year 1991	
	A, B, and C	A	B and C
Rent	7,200	5,000	5,000
Utilities	1,680	1,800	1,800
Phone	2,100	2,205	2,205
Equipment	4,500	4,725	4,725
Insurance	660	690	690
Postage	600	630	1,500
Advertising	450	475	3,000
Office Supplies	3,150	3,308	3,308
Transportation	600	630	630
TOTAL OVERHEAD	**20,340**	**19,463**	**22,858**

	Fiscal Year 1992		Fiscal Year 1993	
	A	B and C	A	B and C
Rent	5,250	7,000	5,800	9,000
Utilities	1,890	2,520	2,088	2,880
Phone	2,315	2,515	2,430	2,600
Equipment	4,961	4,961	5,210	5,200
Insurance	730	730	765	770
Postage	662	1,800	695	2,000
Advertising	500	4,000	525	4,000
Office Supplies	3,473	4,500	3,646	5,500
Transportation	660	660	693	693
TOTAL OVERHEAD	**20,441**	**28,686**	**21,852**	**32,643**

The following table presents a comparison of projected income and expenses for each scenario for 1991-1993. As shown, Scenario A and B generate enough revenue to pay for the expense of the program and contribute to the cost of ONE's advocacy work. Scenario C, the community development center, does not generate enough revenue to cover expenses and must be supported through grant revenues. However, as loan volume increases, the amount of subsidy needed decreases.

TABLE 19

PROJECTED INCOME/EXPENSES

	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993
SCENARIO A			
Income	$106,699	$133,584	$170,616
Expenses	$100,963	$119,141	$163,414
Net	$ 5,736	$ 14,443	$ 7,202
SCENARIO B			
Income	$136,071	$186,584	$247,866
Expenses	$116,858	$161,511	$202,715
Net	$ 19,213	$ 25,073	$ 45,151
SCENARIO C			
Income	$136,071	$189,584	$251,866
Expenses	$190,558	$241,521	$286,804
Net	$(54,487)	$(51,937)	$(34,938)

SECTION VI. CONCLUSION AND RECOMMENDATIONS

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NEIC is a most unusual community development vehicle. Since its inception, NEIC has operated as a community capital broker and advocate. Through its association with ONE, NEIC has the potential to serve as a tool for local residents in Uptown and Edgewater to manage reinvestment in their community and exert local control over the development of the community. This is a particularly valuable role in the Uptown and Edgewater communities because the gentrification pressures that are present threaten the future of affordable housing and the ability of current residents to remain in the community.

As ONE selects the options for NEIC to pursue over the next few years, the board of ONE must first address itself to the question of its organizational commitment to NEIC and the degree to which ONE is committed to supporting NEIC through changes in its market definition and in the structure of its loan programs. The recent experience with the CESF program has demonstrated that as a loan packager, NEIC can be very vulnerable to changes in its fee structure. ONE must decide to what extent it wants to advocate for NEIC or redesign NEIC to advocate for itself.

It is clear from the previous analysis that both Scenario A and B demonstrate that NEIC can continue to be financially self-sufficient and generate revenues to support the advocacy work of ONE. However, continued delay in renewal of the CESF program will jeopardize NEIC's ability to meet its financial goals in 1991. Also implementation of the CD eligibility criteria for individual loan packages in the CESF singlefamily program will eliminate the revenues generated in excess of expenses and make the financial stability of NEIC under both Scenario A and Scenario B more dependent on grant support.

If ONE chooses to pursue Scenario C for NEIC, then ONE must commit to raising at least $50,000 per year in grant support. As the Income/Expense comparisons show, Scenario C will not allow NEIC to generate sufficient revenues to cover its expenses. The projections do show that the deficit will decrease each year as loan volume increases. However in Scenario C, NEIC will be a community development center and it is very likely that future opportunities to advocate for community development will lead to new activities for NEIC that will require grant support. Therefore, if ONE chooses this scenario, it should commit to continue a level of grant support for NEIC that will allow it to fully realize its potential as a community development center.

Based on Woodstock Institute's analysis of the future options for NEIC, the following recommendations are offered to ONE.

1. NEIC should be reorganized as a community development center as described in Scenario C.

2. The reorganization should be phased in over an 18 month period to allow time for the hiring of appropriate staff, fundraising, and the development of good management controls for the loan packaging services.

3. The ONE board should allow more flexibility in the geographic focus for NEIC. The NEIC geographic boundaries should be carefully examined to ensure that the target area includes real-estate markets that provide sufficient opportunity for low-income people to buy property. This flexibility would have three effects: 1) it would allow NEIC to offer its services to a larger number of low-income people; 2) it would provide more potential to stabilize the real estate markets surrounding the gentrifying areas so that lower-income people could continue to find affordable housing; and 3) it would provide NEIC with a broader market in which to sell its services.

4. NEIC should immediately begin to develop its relationships with other community-based organizations and lay the groundwork for a strategic planning process coordinated by NEIC that develops consensus about community development goals and the role that each organization can play in achieving those goals.

5. ONE and NEIC should hire a manager for NEIC that has the management capacity and experience needed by NEIC in its dual role as community organization and business. The community organization role that NEIC will play will demand management that is flexible and creative and willing to work collaboratively with other organizations. As a capital broker and loan packager, NEIC will need professional management and administration that is able to ensure that loan packaging is done well and in a timely manner and that records and documentation are complete, accurate and in order.

6. Marketing will be essential to the successful realization of NEIC's financial and community development goals. A solid marketing plan needs to be developed that focuses on NEIC's target populations. ONE should explore the possibility of receiving professional marketing advice on both the development of materials and the training of appropriate staff in the implementation of a marketing plan.

7. ONE should continue to build the understanding and communication links with NEIC that ensure that its community organizing and community development programs understand their mutual goals and remain familiar with the current work of the other.