Partnerships for Housing and Community Development

by Norman B. Rice

My position at the Federal Home Loan Bank of Seattle provides a fresh and exciting new perspective on my lifelong interests in building strong communities. As a City Council Member and as Seattle's Mayor, I spent most of my career immersed in matters of economic development—helping my community create a local revenue base to fund the basic services citizens need, and creating jobs and housing in the process.

The success of America's communities determines our success as a nation. Local communities form the foundation of our society, offering a good place to live, opportunities to earn an honest and decent livelihood, and providing the setting where children learn the values, culture and skills that will determine their success in life.

When I was President of the U.S. Conference of Mayors, I heard again and again the same themes about what makes communities strong: high-quality education; good paying jobs that reward individual initiative and instill hope; and, most important, a local revenue base that is sufficient to pay for the basic economic infrastructure.

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COMMUNITY PUBLIC/PRIVATE PARTNERSHIPS

Successful communities invest in their economic infrastructure—the human capital, physical capital and financial capital necessary to sustain a good quality of life. Increasingly, communities are making these investments through public/private partnerships. These are critical collaborations that combine the best that government, financial institutions, businesses and nonprofit organizations offer.

I want to examine public/private partnerships from several perspectives: why these partnerships are key to our nation's future; how government, business and community organizations can best contribute; and what makes partnerships succeed and what makes them falter.

Also of concern is the megamerger trend in the financial services industry, how it might impact these partnerships, and finally, how the Federal Home Loan Banks support community collaborations in housing and economic development.

Less Federal Support for Affordable Housing

Necessity, as we all know, is the mother of invention. Public/private partnerships were born out of the demise of big government in this nation. This is particularly true for affordable housing development.

The money that cities get from the U.S. Department of Housing and Urban Development (HUD) shrinks each year. Fewer dollars must be split among more worthy projects. As the funding available for new development declines, we see more families in need.

Local housing partnerships developed out of a simple need for more money, but there is more to it than that. We have all seen the fallout from top-down solutions, in which big government steps in with one-size-fits-all answers to a community's housing problems. This fallout is found in the rubble of a torn-down public housing complex. It is found in the lost human potential evident in the faces of children who were never given a chance. It is in the cynicism and contempt that many today feel toward government.

Local Citizens Must Have a Say

Big government solutions undermined rather than strengthened our communities. We know now that people—local civic leaders, business owners, bankers, church leaders, community service providers and particularly residents—need to have a stake and a say in their surroundings.

We know that the federal government's role in public/private partnerships is simply to provide the tools to help people plan and invest in their community's future.

All Partners Must Prosper

As mayor, I learned two important lessons about partnerships. First, let me dispel the one great myth that in these partnerships, it is the private sector that foots the bill and the public that reaps the benefits. That is simply not how it works. All partners have to prosper, or else it is not a true partnership. The measures of benefits will differ, of course, but each partner must receive a reasonable return on investment. For the private-sector partners, this means that they expect to make a profit.

This issue is important because it is one of the major stumbling blocks to successful partnerships. We cannot invite the private sector—whether it be a banker, a property owner or a developer—into a partnership and ask him to leave his profit motives at the door. If we do so, we shut out more than just money. We close ourselves out from the market discipline, financial analysis and other expertise that the private sector brings to our endeavors. Profitability and market success are integral to public/private partnerships.

A second lesson I learned is that these partnerships work best for initiatives that meet a community's goals for social equity and economic opportunity. This means jobs and housing. Ensuring that our citizens have safe and decent places to call home, and opportunities to work hard and get ahead are goals that unite, not divide.

It is my opinion that collaborations built around these common goals can succeed. The odds for success rise appreciably when all of the partners understand their role and the roles of others.

WHO ARE THE KEY PARTNERS?

Here are the partners and the key roles I believe they must fill.

First, the federal government. As a former city government official, I can tell you that communities could work with fewer federal dollars if, in exchange, they also had to contend with less federal bureaucracy. Unfortunately, the decline between funding and redtape has not been proportional.

The federal government should develop commonsense programs centered on results, rather than prescriptive regulations focused on process. The federal government's role in public/private partnerships should be defined by flexibility, efficiency and decentralization.

Next, the role of local governments must evolve. Local civic leaders must be a catalyst for partnerships among financial institutions, community groups, businesses, foundations and others. Local governments need to discover new ways to support these collaborations besides money.

This includes making tradeoffs between regulatory considerations and community needs, expediting government processes, and understanding the interests of private-sector partners.

Financial Institutions and Community Organizations

The most exciting dynamic emerging from public/private partnerships today is the coalition between financial institutions and community organizations. I hope the days are behind us when the community groups feel they must extract commitments from lenders under the Community Reinvestment Act or of even having to entice lenders with the promise of good public relations if they support local projects.

[*Editor's note:* The Community Reinvestment Act requires the supervisory agencies of insured depository institutions to "encourage lenders to help meet the credit needs of the local communities in which they are chartered consistent with safe and sound operation of such institutions."]

Now I hope that community organizations can excite financial institutions with sound lending opportunities that benefit their bottomlines and business interests.

We should not forget that lenders offer more than financial resources. They enrich partnerships with their fiscal reason, private-sector analysis and focus on the marketplace. They also are a conduit to the valuable resources of organizations such as the Federal Home Loan Banks.

Pair these traits with the energy and expertise found in the nonprofit sector, and you have created an unbeatable team. From experience, I have found that it is the leaders in the nonprofit agencies, the civic clubs and the community organizations that have the best understanding of their community's needs, the best feel for who can get things done and the best chance of obtaining the community's buy-in. These are people who, with funding, political support and a little luck, can make things happen.

Home$tart Plus: A Model

The Federal Home Loan Bank of Seattle's Home$tart Plus program illustrates an ideal public/private partnership. Piloted in Seattle, Home$tart Plus was the collaboration of private and public organizations that advocate homeownership as a strategy to enhance the economic stability of lower income families.

Home$tart Plus families received public housing assistance and were enrolled in the federal Family Self Sufficiency Program, which required them to develop and sign a contract outlining their plans for getting off welfare. As their jobs improved and their incomes rose, a portion of their rent was deposited in a savings account maintained by their local housing authority.

Home$tart families took a home buyer education course offered by our city's Community Homeownership Center. Their savings accounts grew, and when they were ready to buy their homes, a local financial institution provided mortgage financing. The lender also obtained downpayment assistance from the Federal Home Loan Bank of Seattle—$2 for every $1 the family had saved, up to $10,000.

The federal government's Family Self Sufficiency Program was the foundation on which Home$tart Plus was built. Local government facilitated Home$tart through the housing authority, which assisted in countless ways.

The lenders stepped in with the mortgage financing and booked market-rate loans. The Federal Home Loan Bank offered the critical downpayment assistance—the incentive for the hard-working Home$tart families. Finally, the nonprofits championed the program and helped at every turn with counseling, training and advocacy.

Home$tart Plus is a model public/private partnership yielding benefits throughout the community. With a safe and decent home, Home$tart families can follow the pathway of opportunity that leads to financial independence. Parents can strive to get ahead, rather than just keep up. Children have a better chance to start each day ready to learn. The community benefits with citizens who share in the pride of homeownership.

The Federal Home Loan Bank is very proud of Home$tart Plus, and we now offer this program throughout our region. There were many points during the program's development, however, when it could have failed.

WHAT THREATENS PARTNERSHIPS?

What can doom a public/private partnership? I see four things that thwart promising collaborations.

The first is greed. That should come as no surprise. Sometimes players want more than they give, whether it be money, control or public recognition. As I said earlier, all partners have to prosper or else it is not a true partnership.

The second is arrogance. Too often I have worked with community organizations who think they have all the answers—and sometimes, they do. But their blinding belief in their cause can get in the way. Partnership means understanding everyone's ideas and interests. It is a shame to see arrogance stand in the way of progress.

Partnerships are also headed for defeat when there is a lack of political will. The rewards of public/private partnerships do not appear immediately. They often don't become apparent until after a politician's term of office is over. Communities need to identify and support leaders with the political will to make long-term investments, even when these decisions put their own re-election chances at risk.

The fourth and most deadly danger that can doom a partnership is poor communication. You have to communicate clearly and concisely so that people will understand how your partnership benefits them. I have never seen a public endeavor fail as a result of too much community outreach.

Escalating Role for Financial Institutions

Throughout my career, I have participated in countless public/private partnerships, and I have seen the dynamics of these community collaborations evolve tremendously. The next wave of that evolution will, I believe, dramatically escalate the role of financial institutions.

Financial institutions are critical to the economic vitality and quality of life in our nation. Now more than ever before, communities are looking to their local lenders for leadership, financing, technical assistance and other support that will help partnerships succeed.

Given this, it is no wonder that the wave of consolidation among financial institutions and the trend toward national megabanks has given rise to so much concern. The underlying worry is that these corporate combinations, in the end, subtract from our communities.

NEEDED MEGABANK POLICIES

That does not have to be the case. Banks with a national reach can still provide the local touch if they make a few important efforts. First, the banks should empower local branch officers to take the lead on CRA lending, rather than making it the domain of a specialized department at company headquarters. Banks should encourage community groups to build partnerships at the most grassroots level, that is, with local bankers who share common concerns.

The second issue deals with leadership and expertise. Banks can lose critical knowledge and community ties when key staff become casualties in megamergers. This can cripple CRA efforts. Banks need to ensure that restructurings and other staff changes which follow a merger do not set back their community reinvestment activities.

The third issue deals with lending commitments. As I said earlier, I would hope that the days of extracting such commitments from financial institutions would be over. Since many people still find them to be worthwhile tools, however, I would suggest that these agreements should touch on the many ways that banks support their communities. This includes banking services, lending and even corporate contributions. I believe the agreement that Washington Mutual reached here in California is a great model.

[*Editor's note:* This agreement involved Washington Mutual's promise to provide loans in communities in which it has branches in return for regulatory approval of a merger.]

Whether they are a megabank with thousands of branch offices or a savings and loan straight out of "It's a Wonderful Life," it is clear that financial institutions must become more proactive in identifying local needs and more innovative in delivering credit. They must discover new ways of investing in their communities and supporting public/private partnerships.

FEDERAL HOME LOAN BANK SYSTEM ROLE

This is where the Federal Home Loan Bank of Seattle fits in. Situated at the crossroads of the public and private sectors, the Federal Home Loan Banks serve more than 6,000 financial institutions across the nation. We provide funding and other banking services that allow our customers to compete as local lenders, ready and able to meet their communities' credit needs.

Our assistance helps to ensure the long-term viability of community financial institutions so that cities and towns can rely on the critical support local banks have provided for generations.

Serving local banks in this way is the basic mission of the Federal Home Loan Bank System. We also offer the special funding programs that most of you are very familiar with—the Affordable Housing and Community Investment Programs. These support efforts to provide jobs, housing, neighborhood services and other benefits to low- and moderate-income families.

They are often catalysts for public/private partnerships, as local lenders access our funding to bring even more value to their community collaborations.

The Federal Home Loan Banks are all about public/private partnerships. We are private banks with a public mission. We work with financial institutions, community housing developers, local government leaders, national policymakers and groups such as the National Association of Affordable Housing Lenders to forge partnerships for stronger communities.

Future Depends on Partnerships

Just as the future of our nation depends on our partnerships, so does the future of each of our organizations. This is the case for everyone here—housing rights advocates, housing developers, government officials and bankers alike. None of us can afford to go it alone.

For our organizations to succeed, we need to find partners who share common goals and interests. We need to be partners, and accept the challenges and the opportunities inherent in community collaborations. Most of all, we need to embrace the spirit of partnership each and every day in the important work we do to make our communities better places to work and live.