



Comptroller of the Currency  
Administrator of National Banks

# Community Developments

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## Good for Banks, Good for Rural America: Partnering with NeighborWorks Organizations

by David R. Dangler, *National Manager,  
Neighborhood Reinvestment Corporation's Rural Initiative*



*Volunteers participating in the Deadwood, South Dakota "Paint the Town" community beautification initiative sponsored by the Neighborhood Housing Services of the Black Hills.*

Banks looking to develop new markets in rural America will find strong and willing partners in the rural wing of the national NeighborWorks® network. And partnering will make a difference. The evidence has been accumulating for 25 years.

That's how long the Neighborhood Reinvestment Corporation has been in operation. A national, public nonprofit intermediary created by Congress to promote revitalization of lower-income communities throughout the nation, Neighborhood Reinvestment has a board of directors representing the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Department of Housing and Urban Development.

Neighborhood Reinvestment founded and supports the national NeighborWorks® Campaign for Home Ownership, which has already helped more than 60,000 families become homeowners. Over the next five years, the Campaign expects to help an additional 50,000 families attain homeownership, while helping an additional 50,000 residents with the support needed to remain in and improve their homes. And homebuyer education will be provided to more than 500,000 prospective homeowners.

Rural organizations now account for more than 25 percent of the national NeighborWorks network of 230 chartered community-based organizations.

### *An array of programs*

Banks looking for partners capable of handling the complex tasks of packaging successful housing and community development initiatives can count on rural NeighborWorks® organizations -- and not just because they, in turn, can count on technical assistance and support from Neighborhood Reinvestment. While each rural NeighborWorks® organization develops its own community revital-

ization strategy, most offer an array of programs and services designed to increase and sustain home ownership. These include pre- and post-purchase homebuyer education, housing rehabilitation, and down-payment assistance, as well as first and second mortgage financing.

Banks have a vital role to play in such partnerships. “We depend on our bank partners to leverage every other resource we have to the hilt,” says Al Gold, executive director of Colorado Rural Housing Development Corporation (CRHDC), a statewide rural NeighborWorks® organization. “The key is that we give the prior lien position to our bank partners and absorb the lion’s share of project risk with our capital.” (*See sidebar below for more on CRHDC’s partnership with Vectra Bank.*)

Gold has reason to appreciate the importance of banks to his organization. Recently Commercial Federal Bank, US Bank, Wells Fargo, and the Colorado Housing and Finance Authority contributed at least \$200,000 each as low-interest loan capital, which has been matched by the U.S. Treasury through its Community Development Financial Institutions (CDFI) Fund program.

The concept of “preferred risk position” is critical to effective partnerships between rural NeighborWorks® organizations and local banks. One way to offer preferred risk is to guarantee a buyer for the special program loan once it’s closed and performing.

A second example of preferred risk position involves having the local bank partner take less than a 50 percent loan-to-value position with a federal loan program assuming the junior debt. In the National Rural Home Loan Partnership (RHLP), USDA Rural Development Section 502 mortgage funds are leveraged by local bank partnership loans. The local bank holds the first mortgage lien at less than 50 percent of the total homeownership package.

The NeighborWorks® organization prepares the homebuyers, assists with any supplemental financing that might be necessary to do the deal, such as a silent second mortgage behind both the bank and Rural Development, and perhaps most importantly, stays with the customers as a resource throughout the life of the mortgage. Neighborhood Reinvestment calls this long-term commitment to the customer Full Cycle Lending and certifies individual NeighborWorks® staff as *full cycle lenders*. National standards and ongoing training are special features of the NeighborWorks® network that spell greater confidence and less risk for banks looking to forge effective partnerships.

### ***“Painting the town”***

Neighborhood Housing Services of the Black Hills (NHSBH), based in Deadwood, South Dakota, was formed to help lower-income families not only to become homeowners but also to *remain* homeowners. Since joining the Rural Home Loan Partnership in 1998, NHSBH has made 24 RHLP loans and helped over 200 families into their first homes. NHSBH also uses sweat equity provided by inmates at a medium-security prison in the area, through the “Governor’s House” initiative, to help make housing construction more affordable.

“First Western Bank has been a strong financial partner since our inception in 1992,” says Joy McCracken, executive director of NHSBH. “Aside from being one of our largest donors, First Western senior management — in the person of Shawn Rost — also plays a vital role on our board.”

As a board member, Rost recruits and builds strong partnerships within the community. This small area bank (\$683 million in assets) also provides volunteers for all of NHSBH’s projects and programs. These include “Paint the Town,” an annual house-painting event, and homebuyer education and financial literacy classes. First Western Bank has also offered a credit line to generate a pool of funds to assist low-income homeowners who want to rehab their homes.

There are 60 rural NeighborWorks® organizations that are anxious to expand their bank relationships. Working with them offers many advantages to banks interested in community development initiatives. Partnering makes marketing more efficient and effective, reduces banks' risks, and provides secondary-market outlets for banks' loans.

Most important of all, partnering helps make the dream of homeownership come true for more Americans of modest means. For any bank committed to strengthening the communities it serves, that kind of investment deserves the highest priority.

*For further information, contact David Dangler, National Rural Initiative Manager, Neighborhood Reinvestment Corporation at (617) 450-0410 or via e-mail at ddangler@nw.org. Visit Neighborhood Reinvestment Corporation's Web site at [www.nw.org](http://www.nw.org) to learn more about partnering opportunities and to locate a NeighborWorks® organization in your community.*

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**“More Than a Pat on the Back”:  
A Bank/NeighborWorks® Partnership in Colorado Pays Off**

Michael Martinez of Vectra Bank exemplifies the ideal bank partner for the Colorado Rural Housing Development Corporation (CRHDC), a rural NeighborWorks® organization that typically helps about 55 families into homeownership every year. Vectra has an agreement with CRHDC and the NeighborWorks® secondary mortgage company, Neighborhood Housing Services of America (NHTSA), to close any first mortgage loans for first-time homebuyers that have been pre-approved for subsequent purchase by NHTSA. CRHDC counsels and prepares the homebuyers and packages financing to meet the needs. Vectra has also sponsored no less than three Affordable Housing Program (AHP) grants to CRHDC through the Federal Home Loan Bank of Denver, grants which CRHDC uses as down payment assistance to help drive their ownership program. The loan is booked at Vectra and once a minimal performance history is established, NHTSA purchases the loan without recourse. According to Martinez, the bank gets more than a pat on the back for strengthening the community: “We meet the people who are most likely to become repeat customers over time. CRHDC introduces us to tomorrow's market, today.”

Over the past three years, CRHDC through its affiliate CDFI organization, Colorado Housing Enterprises (CHE), has closed more than 182 loans totaling more than \$1.4 million dollars. The total loan portfolio serviced is \$1.8 million. CHE generally offers down payment and closing cost assistance loans averaging \$5,000 at 6 percent for five years, but each loan is reviewed independently and terms are flexible. For example, CHE has loaned up to \$80,000 on a residential rehabilitation project that would qualify as historical preservation. Within the past four years, CHE has assisted over 200 families to become homeowners, with an estimated \$28 million in first mortgages. The total for the past six years of production exceeds \$35 million.