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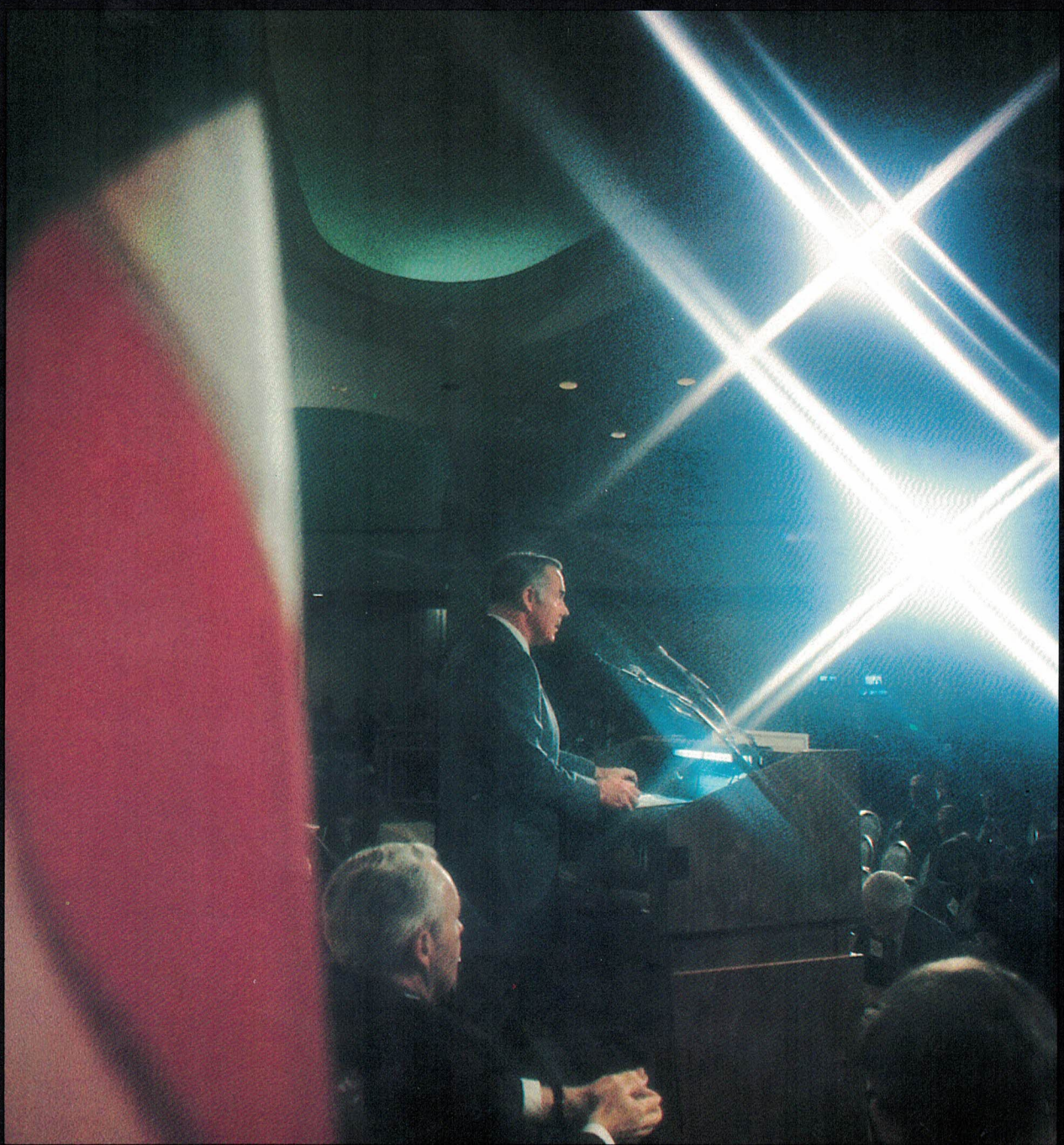
Enterprise
National Association of Manufacturers
May 1983

Pride and Purpose

A Provocative Conference Charts Industry's Future



REVERSING DECLINE IN AMERICA'S NEIGHBORHOODS

NAM members lead the way

by Wm. A. Whiteside

NAM member companies throughout the country are playing a vital role in bringing renewed health and pride to once declining neighborhoods throughout the nation.

You can see it in the fresh paint brightening Minneapolis' southside and in the 49 vacant lots set for new construction in Northeast Waterloo, Iowa. It's also apparent from the comfortable homes that were abandoned properties in Newark, N.J.; the architectural tours taking place in Rochester, New York's Edgerton neighborhood; and the self-help home inspection checklists being handed out in Tacoma, Wash.

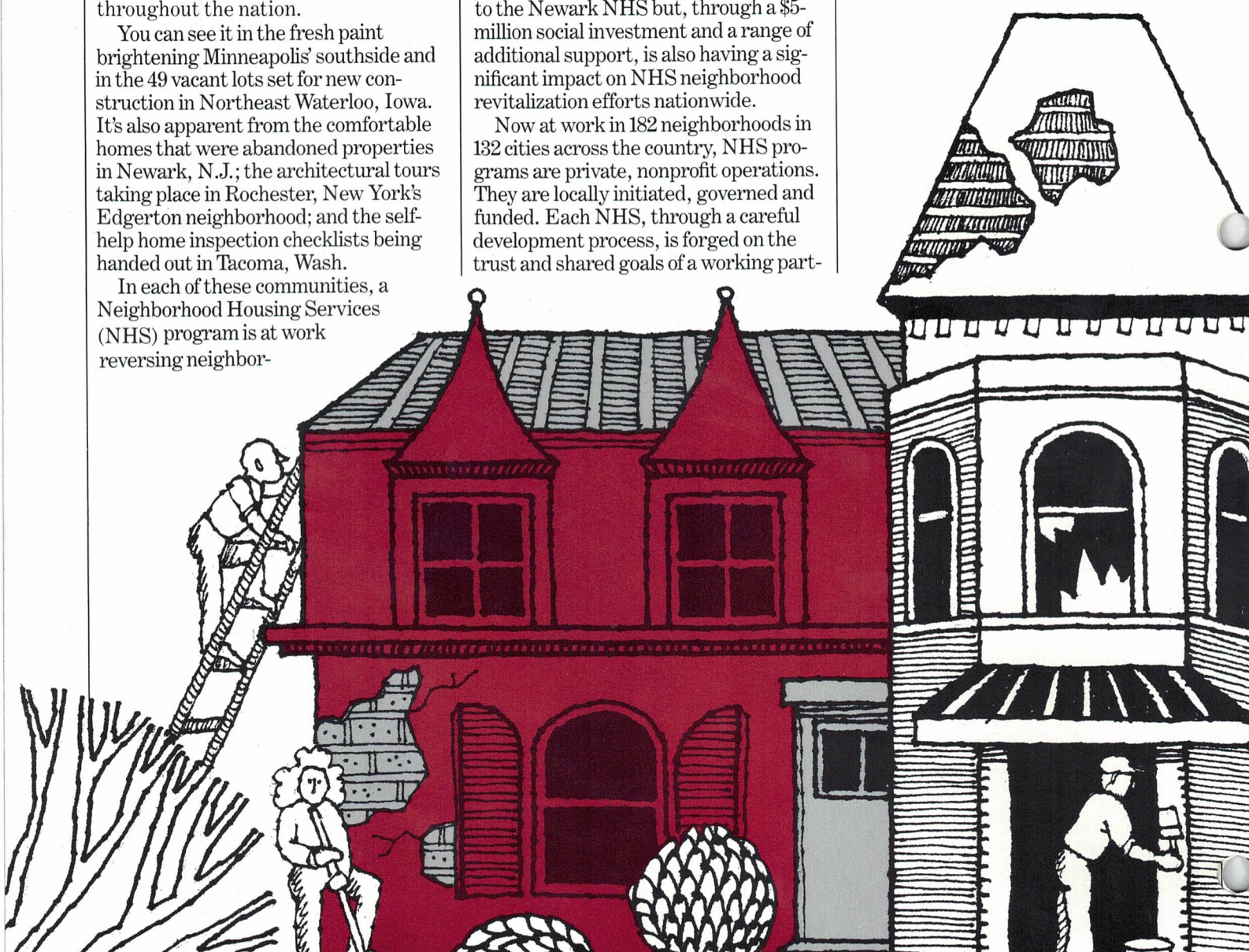
In each of these communities, a Neighborhood Housing Services (NHS) program is at work reversing neighborhood decline with the active support of NAM members. Sherwin-Williams is active in Minneapolis; John Deere in Northeast Waterloo; the Prudential Insurance Company of America in Newark; Eastman Kodak Company in Rochester; and the Weyerhaeuser Company in Tacoma.

Weyerhaeuser also provides support to the NHS in Aberdeen, Wash. And Prudential not only provides leadership to the Newark NHS but, through a $5-million social investment and a range of additional support, is also having a significant impact on NHS neighborhood revitalization efforts nationwide.

Now at work in 182 neighborhoods in 132 cities across the country, NHS programs are private, nonprofit operations. They are locally initiated, governed and funded. Each NHS, through a careful development process, is forged on the trust and shared goals of a working partnership of neighborhood residents, local business and financial leaders, and local government officials.

As a prime example of volunteerism and private sector initiative, members of NHS partnerships draw on their personal expertise and creative energies as well as on a variety of resources from their institutions, to upgrade the health of a locally selected neighborhood.

John Deere, manufacturer of farming equipment in Waterloo, has supported the Northeast Waterloo NHS since its inception nearly four years ago. "A corporation always takes a good look at the results of its contributions. And the results with NHS have been very good," says Gordon D. Tjelmeland, manager of community relations at Deere. "NHS has improved a whole area of the city in a short period of time."



Members of NHS partnerships are contributing to the vitality of cities across the country. Residents take the lead, comprising the majority on NHS boards of directors and committees.

Resident board members are pacesetters, renovating their own homes and promoting the NHS concept to their neighbors. Residents also work with city officials to implement a systematic housing-inspection program that encourages voluntary compliance.

Local government provides the flexible housing-inspection program in cooperation with the NHS, and usually commits part of the funds needed to develop the program, as well as capital for a revolving loan fund to help "unbankable" residents upgrade their homes. City officials also offer an increased level of capital improvements and public services to the NHS neighborhood.

Business and financial leaders are essential to the success of NHS programs. Lenders agree to make market-rate loans to all homeowners in the NHS neighborhood who meet normal underwriting criteria. Financial and other business leaders are also actively involved on NHS boards of directors, contributing their managerial skills and financial expertise. In addition, they support the NHS operating budget through tax-deductible contributions.

Support for NHS operating budgets now comes from about 300 nonfinancial corporations, more than 1,000 banks and savings and loans, and more than 70 insurance companies.

In Stamford, Conn., the NHS relies primarily on corporate funding to support its annual operating budget. "NHS is well received by Stamford corporations because it's one of the best examples of a partnership that works," says Pamela Koprowski, NHS president and manager of community affairs at Champion International.

Koprowski explains that, because of an acute housing shortage in Stamford, "every unit saved is critical. The lack of affordable housing is of particular concern. And we know that, with NHS, we get something done. The partnership concept is a winner."

Although less than one year old, the NHS in Winston-Salem, N.C., has attracted strong support from R.J. Reynolds Industries. "We feel very positive about its potential," says Gayle Anderson, an NHS board member and community affairs associate at R.J. Reynolds. Citing NHS's national track record, Anderson views the program "as one way to make a sound social investment in the neighborhoods where Reynolds' employees live."

Lance Buhl, program associate at The Standard Oil Company (Ohio), also cites "the NHS model, with its track record, as an excellent vehicle to help a company realize its goal for corporate contributions." Standard Oil recently contributed a three-year, $169,610 grant to the NHS of Cleveland to aid its expansion to a third neighborhood.

With broad support and a small, skilled staff, NHS programs have established a

Illustration: Pat Morrison

proud track record. They have generated more than $1.5 billion in total reinvestment, more than $100 million in contributed local support and more than 100 million volunteer hours. More than 1 1/2 million people now live in NHS neighborhoods. In addition to the programs already in operation, 21 additional NHSs are now in development.

Key to the NHS effort is a revolving loan fund available to homeowners who do not meet normal credit requirements because of income or credit history. The fund ensures that all NHS residents have access to the financial assistance they need to bring their homes up to acceptable safety standards.

To help NHSs replenish their revolving loan funds, Neighborhood Housing Services of America, Inc. (NHSA), a nonprofit corporation, was created in 1974 to provide additional private sector support to NHS programs. NHSA's first goal was to create a national loan purchase pool and, ultimately, a secondary market to give NHS programs access to the private investor market.

The secondary market became reality in 1978 when the Equitable Life Assurance Society agreed to buy $1 million in below-market notes collaterized by NHS loans purchased by NHSA. In 1980, Equitable agreed to buy an additional $2 million in NHSA notes. One year later, Prudential committed $5 million to a below-market first loan purchase fund to be administered by NHSA. And, in 1983, Aetna Life & Casualty committed $4 million to purchases of below-market NHSA securities.

Edmund C. Sajor, NHSA's president and director of public affairs of Pacific Gas & Electric Company, recently cited the breakthrough of these multimillon dollar insurance industry below-market investments: "In purchasing notes backed by NHS loans, Equitable, Prudential and Aetna have set a new precedent in creative social investment."

The $5 million from Prudential is targeted to help NHSs develop "problem properties" strategies to deal with such neighborhood concerns as vacant lots, abandoned homes, undermaintained rental units and low ratios of home ownership. Prudential also has provided a $120,000 grant to NHS operating budgets in cities where property-casualty insurance company representatives have joined NHS as "full partners."

As one of many leading insurance companies enhancing NHS neighborNHS neighborhoods and providing managerial and financial support at a level comparable to that of local institutions. NHS-insurance industry full partnerships are now serving the residents of 27 neighborhoods in eight cities across the United States. By late spring, the count will jump to 11 cities and an additional 10 neighborhoods.

In addition to the NHS insurance full partnership and problem properties strategies, several other partnership efforts are under way to enhance NHS neighborhood goals. These include apartment improvement programs, neighborhood commercial management

"Success in turning around neighborhoods often generates enthusiasm . . . for . . . new initiatives."

programs, owner-built housing programs and energy conservation programs. In Oakland, the owner-built program received assistance from Pacific Gas & Electric, alleviating the need for a $125,000 performance bond. In Rochester, Rochester Gas & Electric provided training to NHS staff in home energy conservation as well as volunteering staff to perform energy audits with an NHS construction specialist.

Additional corporations are also helping to stimulate progress in NHS neighborhoods: Cities Service Company and Williams Company in Tulsa, Okla.; Arco and Coors in Denver, Colo.; Amoco in Charleston, S.C. and Casper, Wyo.; Pitney-Bowes in Norwalk and Stamford, Conn., Xerox in Rochester, N.Y. and Stamford, Conn.; and Grace Harbor Paper Company, jointly operated with Hammermill, in Aberdeen, Wash. Through an NHS national discount program, Sherwin-Williams is also contributing to NHS efforts nationwide.

Support to NHS neighborhoods also comes via challenge grants. With the resources of the Bird Companies Charitable Foundation, the Shreveport, La., NHS has leveraged close to $100,000 from a $10,000 grant. David Lewis, Shreveport NHS executive director, credits the foundation with "helping us to get on our feet, not just by generating local revenues, but by providing training in how to apply for more."

Bird is also providing support to NHS programs in Charleston, S.C. and Durham, N.C. "I'm glad NHS exists," says Bird's Executive Director Joseph Breiteneicher. "The talent, skills and commitment I've come across are impressive. And as a neighborhood goes, so goes the community."

Experience in the earliest NHS programs show that it takes about six years to turn around an average NHS neighborhood. About $12 million in reinvestment occurs during this period.

A national resource for NHS programs was established in 1978 by Congress when the Neighborhood Reinvestment Corporation was created to play a catalytic role in stimulating NHS partnerships. The corporation serves primarily as an educator, assisting the diverse groups to find the common ground on which to work toward healthier neighborhoods. Once incorporated, each NHS, governed by its local board, works through committees and staff to achieve neighborhood revitalization goals. To meet special needs, Neighborhood Reinvestment supplies training and technical services at the request of local programs.

Success in turning around neighborhoods often generates enthusiasm among NHS partners for undertaking new initiatives. Expansion may take place geographically by expanding into new neighborhoods, or programmatically by adding new strategies to overcome neighborhood problem areas that may have been bypassed initially.

There are also such activities as Kansas City's "how-to" block-organizing manual aimed at crime prevention; the classes in easy energy management in Great Falls, Mont.; the freeway landscaping project organized by Phoenix residents; and the 10-block neighborhood clean-up along a commercial corridor in Detroit's NHS neighborhood.

As so many NAM members have discovered, the NHS network provides a tested vehicle for corporate community partnership involvement at both the local and national levels—involvement through corporate investments, charitable contributions and the time and talents of corporate personnel. ■

Wm. A. Whiteside is executive director of the Neighborhood Reinvestment Corporation, Washington, D.C.

(CRA) of 1976 affirmed that helping to "meet the credit needs of the local communities in which they are chartered" is a national priority.[1]

Government policy has not always considered important interdependencies when addressing the problems of neighborhoods. For example, programs that provide affordable housing for low- and moderate-income residents often failed to ensure stable tenancy because of lack of jobs, necessary community services, and supportive social institutions. This was due in part to an inadequate understanding of socioeconomic problems and in part to a tendency for government to divide related problems into separate functional categories, such as housing, economic development, and education.

Over the years, federal policies toward neighborhoods have become progressively better coordinated and more cognizant of the need to deal comprehensively with interdependent problems in the places where they occur. For example, federal support for expansion of the Neighborhood Housing Services (NHS) was based on the belief that private lenders, homeowners, and government should work together to prevent neighborhood decline. The idea originated as a grass-roots effort in Pittsburgh in 1968, was promoted by the federal government for replication in other cities, and in 1978 became the mission of the Neighborhood Reinvestment Corporation (NRC), which was established by Congress (see box on page 49).

Experience suggests the need for both government and private-sector approaches to neighborhood improvement that are based on the following considerations:

- **Preserving and enhancing the existing assets of neighborhoods.** These efforts should include the rehabilitation of housing stock, the revitalization of commercial establishments, and the support of social institutions and organizations. Neighborhoods have potential as well as problems. The first rule of neighborhood strategy should be to "do no harm," and the second should be to stop doing those things that make it more difficult for residents to act in their own behalf. More effort should be made to develop assets already available, recognizing the ways in which housing and commercial rehabilitation and supporting social institutions can be mutually beneficial.
- **Promoting new housing and commercial and industrial development compatible with the existing assets and character of neighborhoods.**

[1] In the fall of 1980, the Conference Board assembled officials from twelve major lending institutions to discuss the CRA. They stated that the act had, in their opinion, generated more innovation in providing financial services to neighborhoods.

FINAL REPORT

National Association of Insurance Commissioners

Task Force and Advisory Committee on Urban Reinvestment

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June 8, 1982
Philadelphia

investments by insurance companies. In setting forth these examples, there is an effort to deal with, at least implicitly, some of the elements which may appear to be impediments to or unattractive characteristics of urban neighborhood investments.

1. Housing

-- The Neighborhood Housing Services program is a proven model that operates in more than 100 cities around the country. Many insurance companies provide grant funds to NHS programs, some provide investments, and some provide insurance coverage. The Auburn-Gresham and Roseland neighborhoods in Chicago that were toured by the Task Force and Advisory Committee are good examples of neighborhoods in which the NHS program would serve as an important investment boost.

-- NHS of America is a second mortgage entity that purchases high risk loans from local NHS's. Both Equitable and Prudential invest in this program.

-- The Apartment-Building Improvement Program (AIP) is another program of the Neighborhood Reinvestment Corporation. It is designed to treat multifamily apartment buildings in a concentrated area and has been tested in Yonkers, New York, the Bronx, and Hartford, among other places.

-- New Partnerships, Inc. (NPI) is a Chicago-based innovation of the NHS program and Allstate Insurance Company, described above, and could be replicated in other neighborhoods around the country.

-- Single-family vacant property acquisition, rehabilitation and sale. Aetna is involved with three neighborhoods -- one each in Chicago, Philadelphia and Cleveland -- that operate such a program, based on a commitment of slightly below-market-interest-rate long-

Center for Corporate Public Involvement

INSURANCE INDUSTRY INVOLVEMENT *in* NEIGHBORHOOD HOUSING SERVICES

Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation is a nonprofit public corporation established by Act of Congress in 1978. The Board of Directors of the Corporation is composed of:

Richard T. Pratt, *Chairman*
Chairman, Federal Home Loan Bank Board

J. Charles Partee, *Vice Chairman*
Member, Board of Governors, Federal Reserve System

Samuel R. Pierce, Jr.
Secretary of Housing and Urban Development

C. T. Conover
Comptroller of the Currency

William M. Isaac
Chairman, Federal Deposit Insurance Corporation

Edgar F. Callahan
Chairman, National Credit Union Administration

The role of the Neighborhood Reinvestment Corporation is to develop local programs designed to reverse neighborhood decline for the benefit of current residents. Each local program is autonomous and is governed by a working partnership of local residents, business leaders, and local government officials.

The primary program of Neighborhood Reinvestment is Neighborhood Housing Services, which now operates in one or more neighborhoods in more than 130 cities, in 42 states.

The Center for Corporate Public Involvement

The Center for Corporate Public Involvement, sponsored by the American Council of Life Insurance and the Health Insurance Association of America, provides assistance and guidance to life and health insurance companies so they might use their corporate financial and human resources to more effectively deal with community and social problems. Operating since 1971, it also works with other industries and the public and nonprofit sectors to achieve common objectives.

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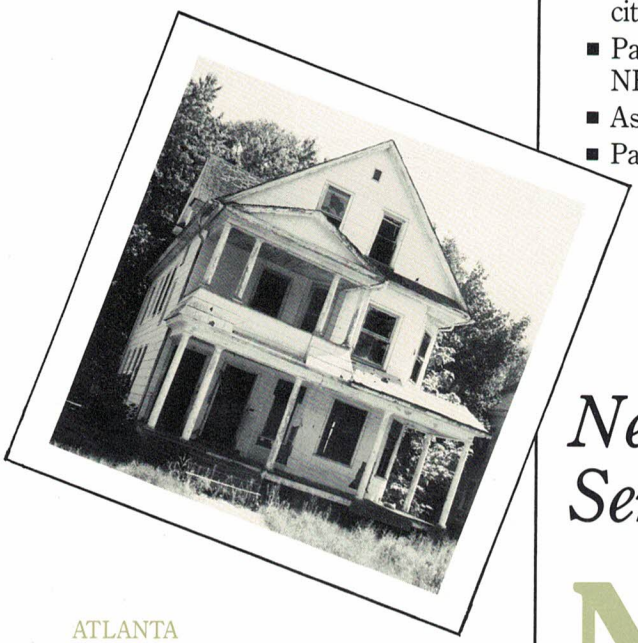
Printed Courtesy of
Allstate Insurance Company

January 1983

Insurance Industry Involvement In Neighborhood Housing Services

INSURANCE COMPANIES SUPPORTING NEIGHBORHOOD HOUSING SERVICES

At least 113 insurance companies are supporting NHSs in 49 cities where the companies have home offices, regional offices and/or a significant share of the market. Listed below are those cities:



ATLANTA
Aetna Life & Casualty
Allstate
Continental
Cotton States
Fireman's Fund
Hartford Group
Liberty Mutual
Maryland Casualty
Prudential
SAFECO
St. Paul Companies
State Farm
Travelers

AURORA
Metropolitan Life

BALTIMORE
USF&G

BOSTON
John Hancock
New England Mutual
Prudential
United Guaranty

Introduction

A growing number of insurance companies are finding that participation with Neighborhood Housing Services (NHS) is a satisfying and effective way to meet their corporate community objectives. Insurance companies' participation in NHS programs can include:

- Providing the time and talent of company staff to NHSs through their service on NHS boards and committees.
- Contributing to local NHS operating budgets and revolving loan funds in cities in which companies have a particular interest.
- Participating as an institutional investor by below-market purchases of NHS secondary market securities.
- Assisting with special projects which enhance the efforts of local NHSs.
- Participating in the NHS-Insurance Industry Full Partnership program.

Neighborhood Housing Services: How It Works

Neighborhood Housing Services begins with a neighborhood in trouble. The housing, whether single-family homes or apartment buildings, whether owner-occupied or rental, is aging and repair costs are mounting. Minorities usually make up a large percentage of the neighborhood's population, and the income level is generally well below the city's median. Some owners cannot afford to make badly needed repairs and abandon or neglect their property. The presence of these dilapidated and blighted buildings causes others to question the value of repairing their own properties. Potential new residents avoid the area. The cycle of decline begins to accelerate.

The NHS Approach A committed partnership of neighborhood residents, city officials, and business leaders determined to "turn around" a declining neighborhood is the key to the success of Neighborhood Housing Services. Staff members of the Neighborhood Reinvestment Corporation help potential NHS partners discover a common ground upon which they can cooperate. As one of the participants in the first NHS (in Pittsburgh, in 1968) said, "after we started attacking the problem and stopped attacking one another, we made good progress." Neighborhood residents agree to fix up their own homes and to encourage their neighbors to join in this effort. City officials agree to provide a sensitive code inspection program and to upgrade city services and improvements in the neighborhood. Business leaders agree to make financial contributions to the operating budget and to volunteer their technical expertise in finance and management. Those business leaders who are lenders agree to make rehabilitation loans to neighborhood residents who meet conventional lending standards. The

partnership forms a locally-controlled nonprofit corporation. Its representatives serve on the corporation's board of directors which hires a small professional staff and provides policy making and financial responsibility for the organization.

Then the partnership decides on the boundaries of the NHS neighborhood. It works with the staff to develop a strategy to most effectively target and deliver comprehensive rehabilitation services within that neighborhood. These core services, found in each NHS program, include:

- *Rehabilitation counseling:* analyzing home repair needs, preparing work specification and cost estimates, helping residents in the selection and supervision of contractors.
- *Financial counseling and referral:* advising residents on the acquisition of home improvement financing, helping residents develop a plan to pay for repairs, and referring residents to special loan resources and to participating lenders, who have agreed to make all of the bankable loans generated by the program.
- *Construction monitoring:* assisting homeowners in working with contractors and in inspecting home repair work.
- *Community involvement:* working with the NHS community relations committee and organizing local residents to promote activities which will strengthen neighborhood pride and self-reliance, such as community newsletters and street festivals.

In addition, and this is a cornerstone of each NHS program, the NHS establishes a revolving loan fund, capitalized by grants made by the Neighborhood Reinvestment Corporation, local governments, foundations and industry. The loan fund provides resources which enable homeowners who do not qualify for conventional loans to improve their properties. The revolving loan fund does not make grants or give away money; rather it provides loans at flexible rates and terms designed to meet the ability of the borrower to pay, so that every home in the neighborhood can be improved. Since these are loans and not handouts, they contribute to the dignity of the borrowers and their pride in participating in the revitalization of their community.

The resurgence of confidence resulting from the early visible results of NHS' work produces a substantial spin-off effect, as property owners upgrade their properties without any direct assistance from the NHS staff.

NHS Highlights A typical NHS operates in a neighborhood of 2,500 homes and produces $12 million in reinvestment in a five- or six-year period. Most programs that have been in operation for more than three or four years have established positive track records leading to a broadened partnership and expansion to serve additional neighborhoods. NHS programs now serve over 180 neighborhoods in more than 130 cities. One and a half million residents live in NHS neighborhoods and the programs have produced over $1.7 billion in reinvestment since the first NHS began work in Pittsburgh in 1968.

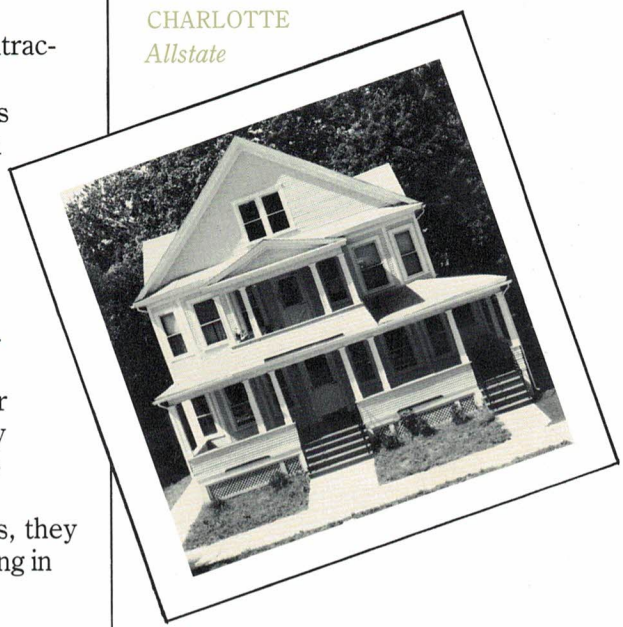
- NHS programs operate in large, medium and small cities. Of the 57 cities over 250,000 population, 42 have NHS programs and one has programs in development.
- Income in neighborhoods served averages 84 percent of city-wide median incomes.
- Minorities are found in most NHS neighborhoods. Minority populations

BRIDGEPORT
Aetna Life & Casualty
Allstate
Connecticut General
Continental
Covenant
Hartford Group
Middlesex
PRUPAC
Security Mutual
Travelers

BUFFALO
United Guaranty

CASPER
Equitable Life

CHARLOTTE
Allstate



CHICAGO
Aetna Life & Casualty
Allstate
Andover
Bituminous Casualty
Connecticut General
CNA
Fireman's Fund
Hartford Group
Insurance Co. of Illinois
Kemper/Lumbermans
Liberty Mutual
PRUPAC
SAFECO
St. Paul Companies
State Farm
Travelers

CLEVELAND
Aetna Life & Casualty
Allstate
Celina
Continental
Crum & Forster
Hartford Group
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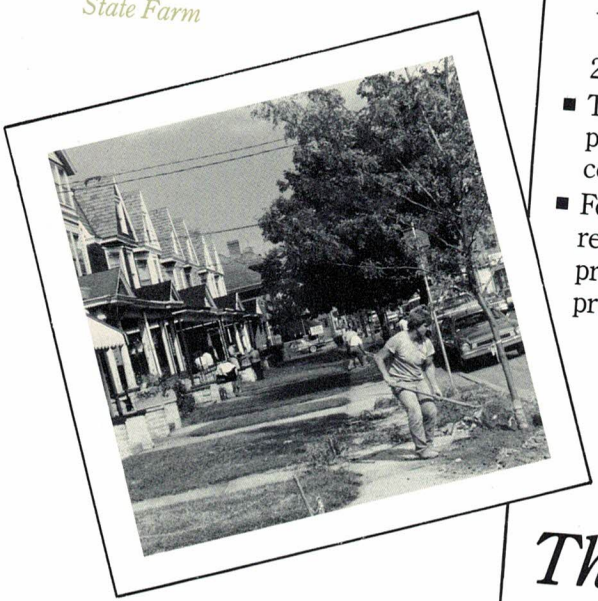
Lumbermans
Michigan Miller
Midwestern Indemnity
Motorist
Nationwide
PRUPAC
Shelby Mutual
State Auto
State Farm



COLORADO SPRINGS
Equitable Life
United Guaranty

COLUMBUS
Midland Mutual
Midwestern Indemnity
Motorists Mutual
Nationwide
State Auto Mutual
JC Penney Casualty

DALLAS
Allstate
Employers Casualty

DENVER
Allstate
Colorado Farm Bureau Mutual
SAFECO

make up 85 percent or more of the total in one-fifth of the NHS neighborhoods. Three-fifths of the NHS neighborhoods have a minority population of between 15 percent and 85 percent and one-fifth of the neighborhoods have a minority population of 15 percent or less.

- Neighborhoods served range from 600 to 10,000 dwelling units. The median neighborhood size is 2,500 units.
- Neighborhood populations range from 1,500 to 27,000.
- The staff of the Neighborhood Reinvestment Corporation provides the development and technical services that enable the local NHS partners to organize the program and continue on their own.
- Working closely with Neighborhood Reinvestment is Neighborhood Housing Services of America (NHSA), a private, nonprofit, tax-exempt corporation which provides local NHS programs throughout the country with:
  1. A national secondary market which purchases non-bankable loans from local NHS revolving loan funds.
  2. Technical assistance and other services.
- To date, NHSA has replenished local revolving funds by purchasing loan packages totaling over $5 million from 58 programs, and has made commitments for over $2 million in additional purchases.
- For every dollar available through local revolving loan funds, over $25 of reinvestment have been stimulated in NHS neighborhoods. This includes private lending, direct investment by homeowners, and capital improvements by local government.

The Secondary Market for NHS Revolving Fund Loans

Neighborhood Housing Services of America Because revolving loan funds are designed to meet the needs of low income people, repayment schedules must be extended over several years to meet the borrower's ability to pay. These stretched-out payments do not keep up with the increased demand for new loans created when residents see their neighborhood improving. Thus, there is a need for an infusion of new capital to insure that the revolving loan funds keep pace with each program's ability to upgrade its neighborhood. Just as savings and loan associations and banks need a secondary market to which they can sell loans to replenish their ability to make new loans, the NHS programs also need a secondary market for their revolving loan funds.

To provide a mechanism for the continued flow of revolving loan dollars into NHS neighborhoods, Neighborhood Housing Services of America (NHSA) created a loan purchase pool to serve as an interim secondary market for the purchase of loans from local NHS programs. Annual contributions averaging $480,000 per year from the Neighborhood Reinvestment Corporation provided capital to set up and operate the loan purchase pool. In the meantime, NHSA secured the first buyer to change the character of the loan purchase pool into a true secondary market.

The buyer was The Equitable Life Assurance Society of the United States. In 1978, the Equitable signed a loan purchase agreement for $1 million in ten-year notes at a below market rate of 8½ percent and later agreed to buy an additional $2 million worth of notes.

In 1981, The Prudential Insurance Company of America committed to purchase $5 million in 25-year notes at a below market rate of 9½ percent for a first Mortgage Loan Purchase Program. The Prudential commitment is earmarked to those "problem properties" that escape the routine NHS upgrading procedures to which most homeowners respond. Strategies to address these properties include the purchase and rehabilitation of vacant houses, infill construction of new homes on vacant lots, and blighted rental properties, often absentee-owned.

Early experience in the sale of loans to the secondary market has resulted in the replenishment of 58 NHS revolving loan funds to date totaling over $5 million, and future purchase commitments of $2 million. This early experience has also served to develop a workable, dependable mechanism for the NHS secondary market social investments which are needed to assist more than 180 local partnerships in upgrading urban neighborhoods across the nation.

NHS Secondary Market Operations NHS secondary market is designed to provide substantial assurance to the social investors that NHSA can meet the financial requirements due under any Note Purchase Agreements. The built-in features have worked well in practice since the first note was issued to The Equitable Life Assurance Society of the United States in November 1978.

NHS mortgages and a cash fund to assure timely payment of principal and interest payments on the NHSA notes are held by a bank trustee for the benefit of the note purchaser. As further security, when any loan being used for collateral for this indebtedness becomes 90 days delinquent, a non-delinquent loan is substituted for it. NHSA replaces the delinquent loan and then, under its agreement with the local NHS, the loan is returned to the NHS and another non-delinquent loan is forwarded to NHSA.

Servicing of the NHS loans which serve as collateral for the NHSA notes remains with the local NHS. Payments are forwarded to NHSA monthly. NHSA forwards payments to the trustee quarterly. The trustee holds the payments in a "Payment Fund" which is utilized to meet the quarterly payments due on the notes issued by NHSA under the Note Purchase Agreement.

The experience to date has shown no need to use any of the guarantee funds which were set aside to cover delinquencies. This is due to two factors: The NHSs make every effort to offer NHSA loans which they believe will not require substitution; and where substitutions are needed, there has been full cooperation. The need for substitution has been minimal, however, averaging about 4 per quarter and totaling only 65 over the four-year period of operations out of a total of 734 loans totaling $5,010,318 through September 1982.

One important reason that the secondary market operations can enjoy a sound loan experience is that the NHS loans are made at the ability of the borrower to repay. The interest rates on the NHS loans range from 0 percent to the market rate. NHSA purchases the NHS loans at par and

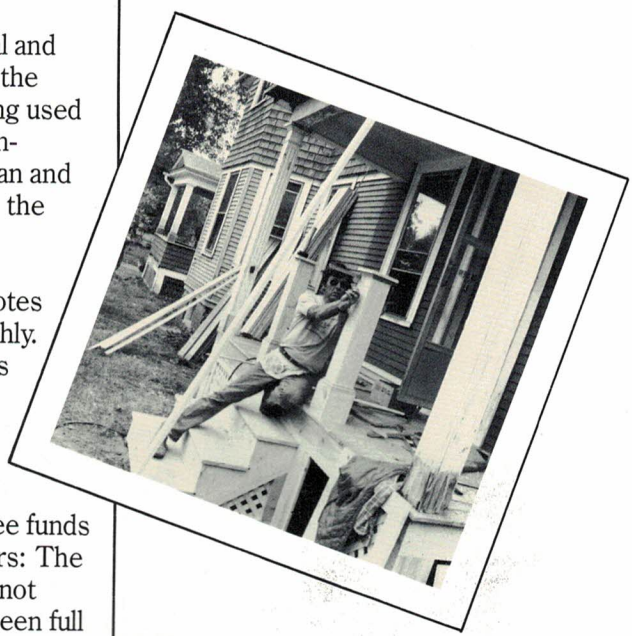
DES MOINES
AID Life
Allstate
American Mutual Life
American Republic
Bankers Life
Central Life
Employers Mutual
Equitable Life
Farmers Mutual Hail
Farmland Mutual Life
Hawkeye Security
Homesteaders Life
IMT
Preferred Risk
State Auto & Casualty

DETROIT
Allstate

DURHAM
Home Security Life
North Carolina Mutual

GAINESVILLE
Nationwide

GREAT FALLS
SAFECO

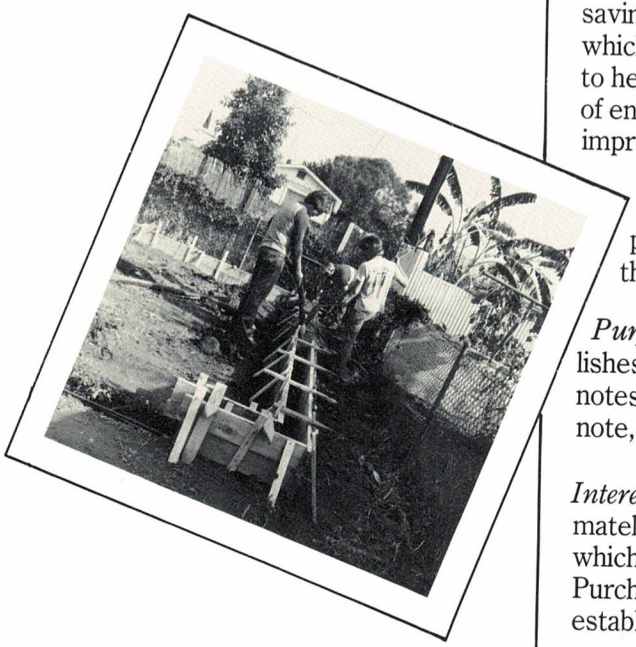


HARTFORD
Aetna Life & Casualty
Allstate
Connecticut General
Connecticut Mutual
Continental
Covenant
Middlesex
Hartford Group
Phoenix
PRUPAC
St. Paul Companies
Security Mutual
Travelers

ITHACA
Security Mutual

KALAMAZOO
INA

KANSAS CITY
Aetna Life & Casualty
Allstate
American Family
Continental
Farmers Insurance Group
Hartford Group
INA
PRUPAC
SAFECO
Shelter
St. Paul Companies
State Farm
Travelers
United Guaranty



seeks a balanced offering of loans with an average rate and term which approximate the average rate and term of the NHS's overall loan portfolio. This has resulted in NHSA loan purchases which average a 5.31 percent interest rate and a 12-year term from NHS clients with a median household income of $9,540 per annum.

Meeting the Challenge of the 1980s The success of NHS programs in revitalizing neighborhoods in more than 130 cities brings about a unique challenge: how to keep pace with the growing need to replenish local NHS revolving loan funds. The NHS secondary market participation by Equitable at $3 million and Prudential at $5 million makes a critical start in meeting this challenge.

New participation is invited by all companies regardless of size. We are pleased to report that Wausau Insurance Company has made the first new commitment and the first notes have been purchased under a $500,000 agreement. Further, Aetna Life & Casualty has made a $4 million commitment for 1983 and the first note will be purchased in early March. NHS revolving loan funds are replenished within days of each note sale.

In order to make the insurance industry's social investment dollars available to local NHS programs, a fund-raising campaign is being launched to raise direct contribution dollars from industrial corporations. These funds will be used: to cover the difference between the below-market interest on notes issued to insurance companies and the still lower interest produced by local NHS revolving loan funds; to assemble and package the NHS loans for purchase by the secondary market and cover cash flow requirements to insure that obligations to social investors are met in a timely manner; and to provide training and technical assistance for the financial development of NHS programs to help maximize their ability to utilize the social investment funds.

Based on past experience, investors can expect that each dollar available through the secondary market to local revolving loan funds will stimulate $25 of local investment in NHS neighborhoods. It is important to note that in this "bootstrap" program all these investments, except the capital improvements made by the city, will be paid directly by the residents themselves from their savings or through the repayment of their loans. The social investments which are needed for the NHS secondary market represent an opportunity to help save neighborhoods across America and are measurable in the value of entire neighborhoods being turned around in our nation's cities and in the improved living environment for more than one-and-a-half million Americans.

The Note Purchase Agreement For companies considering participation in the secondary market, the following is a discussion of the Note Purchase Agreement mechanism:

Purpose: The Note Purchase Agreement is a legal document which establishes NHSA's obligations to the purchaser, the cumulative dollar total of notes, which can be issued under the Agreement, the rate and term of each note, and the time period within which the notes can be issued.

Interest Rate: NHSA proposes purchases at below-market rates approximately three percentage points above the average yield on the NHS loans which NHSA purchases. To date, this has resulted in the need for Note Purchase Agreements at 8½ percent to 9½ percent. Other approaches to establishing the interest rate are being considered.

Term: A term which coincides with the average term on the NHS loan is sought. This has resulted in the need for 12-year terms for the second mortgages and 25-year terms for the first mortgage loan programs.

Collateral: NHS loans and cash reserves are used as collateral for each note, totaling approximately 125 percent of the value of each note at all times. As added protection, NHS loans are purchased by NHSA, with recourse and servicing of all loans purchased remaining with the NHS. Any loan purchased by NHSA which becomes 90 days delinquent is replaced by the NHS with a non-delinquent loan. Therefore, unsold NHS loans are added security for the NSHA notes.

Terms of the Agreement: The overall number of years within which notes can be issued under the Agreement will vary depending upon the size of the Agreement. Two-year draw-down periods have been used to date. NHSA obligations under the Agreement remain in effect until they are met, and the notes are paid off.

Administration: The NHS secondary market is administered by NHSA staff under the direction of the Loan Committee of the NHSA Board of Directors. The law firm of Orrick, Herrington & Sutcliffe of San Francisco issues NHSA's notes and prepares all the legal documents needed for operation of the secondary market.

MILWAUKEE
Allstate
American Family
Northwestern Mutual

MINNEAPOLIS/ST. PAUL
Aetna Life & Casualty
Allstate
American Family
Hartford Group
MSI
PRUPAC
St. Paul Companies
State Farm
United Guaranty

NASHVILLE
Cherokee Insurance Co.
Life and Casualty Insurance Company of Tennessee
National Life & Accident

NEWARK
Mutual Benefit
Prudential

NEW YORK CITY
Equitable Life
Metropolitan Life
New York Life

OMAHA
Guaranty Mutual
Mutual Insurance

PASADENA
Allstate

Additional NHS Components

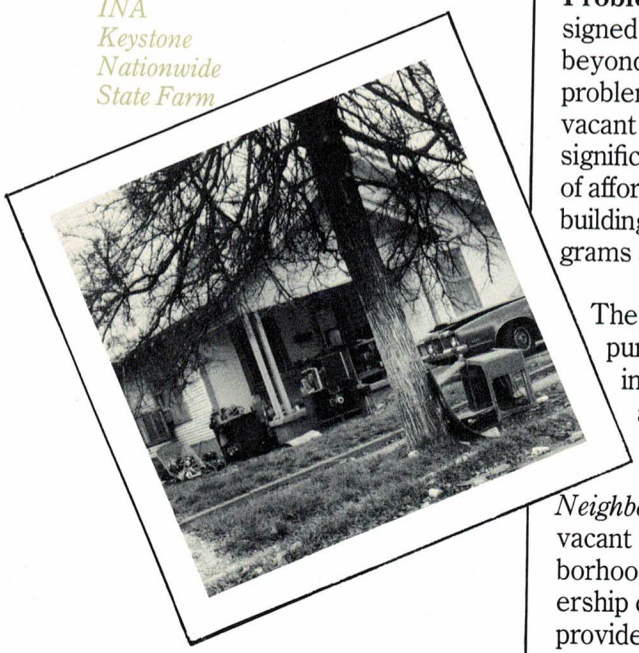
Every neighborhood is different. Some have many vacant lots, some have apartment buildings, some have deteriorating commercial strips. So, in addition to the basic core of rehabilitation services, many NHS programs have developed additional components to meet specific needs. As workable models are developed in one neighborhood, Neighborhood Reinvestment assists other NHS programs with similar needs in replicating them in their own neighborhoods. These special components include:

Owner-Built Housing The Owner-Built Housing program provides a single-family housing construction process to help moderate income families collectively build their own homes with technical assistance from NHS and private financing. The process includes acquiring suitable, affordable land; recruiting owner-builders; securing conventional financing; developing construction plans and cost estimates; and providing construction training and supervision.

In the successful demonstration of this program in Oakland, California, 14 families were able, after investing about 1700 hours of labor, to take title to conventionally financed homes with estimated market values of over $80,000 by assuming $46,000 mortgages. This program is being replicated in additional cities. In Hartford, the Connecticut General Insurance Company is providing the construction financing at interest rates substantially

PEORIA
United Guaranty

PHILADELPHIA
Allstate
INA
Keystone
Nationwide
State Farm



PHOENIX
American Continental
Allstate
Anchor National Life

PONTIAC
Allstate
United Guaranty Residential

PROVIDENCE
Metropolitan Property & Liability

READING
Aetna Life & Casualty

ROCHESTER
Aetna Life & Casualty

ST. LOUIS
Aetna Life & Casualty
American Family
Allstate
Continental
Prudential
SAFECO
Shelter Mutual
State Farm
USF&G

below current market rates. Other opportunities for insurance company participation include providing insurance during the construction phase and in some instances assisting with the cost of land acquisition.

Problem Properties Strategies Problem Properties Strategies are designed to assist NHS programs in addressing "sticking points" which are beyond the scope of basic NHS services and financial resources. These problem properties vary among neighborhoods but frequently involve: vacant or abandoned houses; low percentages of home-ownership and a significant number of poorly maintained rental properties; vacant lots; a lack of affordable quality rental housing; and small undermaintained multi-family buildings. With assistance from Neighborhood Reinvestment, NHS programs are able to implement various problem property strategies such as:

The *Rehabilitation and Sale Program* which allows a local NHS to purchase a vacant house, fully rehabilitate the home, and then resell the improved property to a new homeowner. In some instances, purchase and construction financing are needed to bring the price of the house down to the neighborhood market value.

Neighborhood Marketing efforts which attract new owner-occupants for vacant or abandoned properties which may be too expensive for a neighborhood tenant to purchase and rehabilitate. This approach includes ownership counseling, rehab assistance, and financing alternatives, and may also provide current homeowners with home maintenance training.

Tenant Conversion efforts which assist existing neighborhood residents in purchasing the home they presently rent or a nearby home in the NHS neighborhood. A tenant advisor assists families in finding homes to buy within the neighborhood and works with them to obtain financing and address rehabilitation needs. In city after city, NHS programs have discovered a large pool of stable renters with excellent rent payment records and the ability and desire to become homeowners with the help of NHS counseling and flexible financing. Using this approach, problem properties represented by undermaintained, absentee-owned properties can also be eliminated.

An example of insurance company support for this additional program component is the new secondary market for first mortgages instituted by Prudential. This new $5 million, below-market interest rate secondary market resource is administered by NHSA, and is enabling local NHSs throughout the country to overcome sticking points in their neighborhood revitalization strategies.

Crime and Arson Prevention These programs encourage area residents to assume long-term responsibility for the community, by providing tools and experience that enable them to work cooperatively to reduce incidences of crime and/or arson in the neighborhood. By working together to report suspicious activity, develop information relevant to incidences of burglary and fires, and plan crime and fire prevention workshops, NHS partnerships are lessening the potential for incidences of arson and crime therefore providing an improved environment in which insurers and lenders can do business.

Through insurance company participation as "full partners," the Cleveland NHS has been able to incorporate arson and crime prevention into their daily efforts. Residents share with the NHS staff information on vacant properties

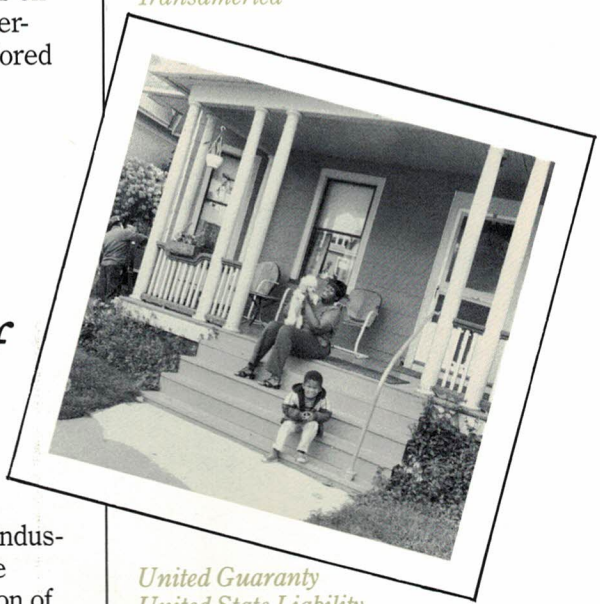
they believe are likely targets for arson. The NHS then identifies the owners of the properties and informs them of the complaints; the city then moves towards code enforcement and abatement and the NHS informs the mortgagee and insurance carrier of the condition of the property. The insurance company is made aware that the property is vacant, and if no improvements are made in a timely manner, coverage normally stops. In many instances, the owner of the property has been notified of the code violations and is willing to sell the property. The NHS secures the property by boarding it up; it then identifies potential owner occupants, and assists them with rehabilitation plans, securing financing, and preparing the property for occupancy again.

In Kansas City, Missouri, as a result of the NHS's Crime Prevention Program (funded by a number of insurance companies) there has been a significant decrease in the incidence of home burglaries in the NHS target areas. The Kansas City Crime Prevention Program is based upon a series of block clubs which emphasize "Block Watches." Block club meetings are organized after a crime has been committed when concern is high. Home security is emphasized and assistance in obtaining and installing locks and yard lighting is offered by the NHS staff through the block clubs. Through their coordination with the city, the program also addresses problems with vacant buildings and lots and undermaintained apartment buildings.

Commercial Revitalization Commercial Revitalization programs complement the work of NHS programs by providing a concentrated approach to neighborhood commercial areas that are in need of technical assistance, coordinated marketing efforts and/or architectural assistance. Working in conjunction with local businesses, merchants and property owners, specific strategies are developed to maintain or return the areas as vital community assets.

Apartment Improvement Program The Apartment Improvement Program is designed to bring financially and physically troubled apartment buildings back into viable operation, providing a decent living environment for the tenant, as well as a return for the investor. The program focuses on privately-owned, conventionally-financed buildings, and uses a computerized Real Estate Investment Analysis Model to develop individually tailored improvement and financial plans for each building.

SALT LAKE CITY
Aetna Life & Casualty
American Bankers
American Modern Home
American Universal
Automobile Club
MGIC
Michigan Mutual
Milbank Mutual
Motor Club of America
North American
North Pacific
Bear River Mutual
Chicago Insurance
Colonial Penn Group, Inc.
Continental Insurance Agency
Cotton Belt
Criterion Insurance
Dairyland
Empire Casualty
Farmers Insurance Group
The General Insurance Co. of Trieste & Venice
Guaranty National
Government Employees
Integrity
Kemper Group
The Maryland
The North-West
Northwestern National
Pennsylvania National Mutual
Republic Western
Rockwood Insurance
State Farm
Southern Insurance
St. Paul Companies
Texas General Indemnity
Transamerica



United Guaranty
United State Liability
Unigard Insurance Group
Utah Farm Bureau
Western Employers

Insurance Industry Support of Local NHS Programs

As corporate citizens in their local communities, the insurance industry has had a history of supporting NHS programs through the commitments of "time, talent and treasury." From the inception of the NHS programs in Des Moines, Iowa; Hartford, Connecticut; and Newark, New Jersey, insurance companies have provided service on NHS boards of directors and operational committees as well as financial

SAGINAW
Hartford Group

SHREVEPORT
Aetna Life & Casualty

SOUTH PORTLAND
Union Mutual

SPRINGFIELD
Massachusetts Mutual
Monarch Life

SYRACUSE
Aetna Life & Casualty

TACOMA
Allstate
New York Life

TUCSON
Allstate

UTICA
Commercial Travelers Mutual

WASHINGTON, DC
United Guaranty

support to operating budgets and revolving loan funds. In each of these instances the continuing support of the local insurance industry has enabled the NHSs to expand their programs to serve additional neighborhoods in their communities.

Today, examples of industry leadership in the NHS movement can be found throughout the country.

In New York City, senior management from Metropolitan, Equitable and New York Life personally contributed hundreds of volunteer hours to the efforts to create the NHS program which is now serving seven neighborhoods throughout the city. This commitment of personal leadership as well as financial resources totaling over $750,000 over the next three years will assist the New York City NHS in reversing deterioration in the neighborhoods containing over 45,000 homes.

In Chicago, the Allstate Insurance Company invested $500,000 in a for-profit subsidiary of the Chicago NHS, called New Partnership, Inc. This seed capital provided by Allstate is enabling the corporation to purchase, rehabilitate and operate apartment buildings in the NHS area. In addition, Allstate provided the leadership along with a $300,000 challenge grant which enabled the NHS to expand their services to a sixth Chicago neighborhood.

Today, a number of insurance companies are also expanding their sense of corporate citizenship beyond their home office cities to additional communities where they have a significant presence. Allstate Insurance Company offers a prime example of this expanded sense of corporate citizenship. Today, in almost a fourth of the NHS programs throughout the country, Allstate personnel are providing thousands of volunteer hours through their service on NHS boards of directors. In addition to this managerial support, Allstate is also providing financial support to a large number of NHSs in those cities where they have regional offices. Another example can be found in Salt Lake City, where over 40 insurance companies are contributing to the NHS as corporate citizens.

The NHS-Insurance Industry Full Partnership

The Neighborhood Reinvestment Corporation offered participation in the NHS partnership to the property/casualty industry in late 1978. This was initiated due to the concerns NHSs were expressing regarding the disinvestment of standard residential insurance services in their neighborhoods. They reported that disinvestment was reflected by: residents being declined or cancelled without explanation, a lack of agents interested in serving the NHS area, and residents drastically underinsured and generally unable to secure adequate coverage through the

voluntary market. This disinvestment of services worked against NHS efforts to rebuild confidence and strengthen the investment climate in their neighborhoods.

In response to these concerns, leaders in the property/casualty industry joined with Neighborhood Housing Services of Chicago. The effort was undertaken to see if NHS could serve as a vehicle to assist the insurance industry in responding to the residential insurance needs of older urban markets. As a result of the months of working together, the Chicago participants found that NHS offered an excellent common ground for both the industry and neighborhood residents.

In the NHS partnership they found that none of the partners are asked to sacrifice their basic self-interests such as the sound underwriting of risks. Instead, all of the partners—residents, lenders, and other businessmen, local government and insurance company representatives—are offered the opportunity to enter into constructive dialogue to find a common ground upon which all of their interests can be served.

The NHS-Insurance Full Partnership Program

The basic components of an NHS-Insurance Full Partnership program are:

- An in-house NHS insurance coordinator trained in insurance basics who:
  1. provides outreach and education on insurance in the community;
  2. refers NHS clients to participating agents and companies;
  3. works towards depopulating the Fair Plan of NHS clients; and
  4. facilitates communication/education among residents, agents and company underwriters.
- A list of company-designated agents who are able and willing to serve residents of the NHS area.
- An Insurance Advisory Committee composed of company-designated liaisons who monitor the progress and impact of the insurance services and provide policy direction as needed.
- The availability of a broad range of coverages through participating companies which are responsive to the needs of NHS residents.
- The service of insurance industry leadership on the NHS Board of Directors.
- Insurance industry participation in the financial support of the NHS program at a level comparable to that being provided by banks or savings and loans.

Company representatives were impressed by the NHS block-by-block inspections of each property and the similarities between the city housing code and company underwriting criteria.

As a result of this demonstration, insurance company executives became personally familiar with the residential insurance needs of individual NHS homeowners. This led to a recognition of the need for new products responsive to the problems created for owners of older properties with significant disparities between their replacement and market values. The dialogue created through this process has brought about recognition of a need to assure continued communication and education among all participants involved in the process of buying insurance—the resident, the agent and the company underwriter.

Through their involvement in the creation of this program, which has come to be known as the NHS-Insurance Industry Full Partnership, companies have found that the block-by-block coordinated reinvestment by all partners offers the industry "a living laboratory" environment in which they can test new marketing approaches and products. Many companies, as a result of their exposure to NHS, have created and/or adapted products which are better suited to the needs of urban markets, such as market value or repair cost policies and most recently, a modified homeowners policy for properties undergoing rehabilitation.

The NHS-Insurance Industry Full Partnership program is designed to strengthen the delivery of voluntary insurance services in NHS neighborhoods through the creation of an outreach, counseling and referral program which heightens resident awareness of the importance of maintaining adequate property coverage and assures residents access to and service through the voluntary market. This program also results in insurance industry participation in the financial and managerial support of the NHS.

Today, NHS-Insurance Industry Full Partnership programs are in operation in eight cities serving 27 neighborhoods. As full partners, insurance companies have found that their participation offers them the opportunity to be a part of NHS—the most significant national effort to date to rebuild the investment climate in older urban neighborhoods. Their opportunity to test innovative responses to neighborhood insurance needs in NHS neighborhoods is also improving their ability to be more responsive to the insurance needs of our nation's cities. To date, insurance companies have contributed over $2.5 million to the operating budgets of NHS-Insurance Industry Full Partnership programs and thousands of volunteer hours of managerial expertise have been invested through service on NHS boards and committees.

Robert P. Keim
President

RECEIVED JAN 1 0

The Advertising Council Inc

825 Third Avenue
New York, N.Y. 10022
212-758-0400

Ad Council

New York
Washington
Los Angeles

January 6, 1983

Ms. Mary Lee Widener
Executive Vice President
Neighborhood Housing Services
of America, Inc.
1951 Webster
Oakland, CA 94612

Dear Ms. Widener:

Recently our Campaigns Review Committee reviewed your proposal for Advertising Council assistance for the Neighborhood Housing Services through a Business Press campaign, as you requested.

Since you have already been informed of their actions, this letter is simply formal confirmation of the Campaigns Review Committee's plans to recommend to our Board of Directors at their meeting on February 10 that they accept the campaign. Anticipating our Board's acceptance, we have had preliminary discussions with the American Association of Advertising Agencies regarding the services of a volunteer advertising agency, and with the Association of National Advertisers regarding the appointment of a volunteer campaign coordinator. We will shortly be in contact with your associates to arrange a meeting to discuss the next steps and details.

We look forward to a most successful public service advertising campaign

With kindest regards.

Cordially,

Robert P. Keim

RPK/dm

cc: Norma Kramer
Gordon Kinney
Elenore Hangley

Neighborhood Reinvestment

NEIGHBORHOOD REINVESTMENT ORGANIZED NHS PROGRAMS

Aberdeen, Washington
Albuquerque, New Mexico
Allentown, Pennsylvania
Anchorage, Alaska
*Atlanta, Georgia (2)
Aurora, Illinois
*Baltimore, Maryland (2)
**Barberton, Ohio (2)
Beaumont, Texas
Beloit, Wisconsin
Birmingham, Alabama
Boise, Idaho
*Boston, Massachusetts (2)
*Bridgeport, Connecticut (2)
*Buffalo, New York (6)
Burton, Michigan
***Cambridge, Massachusetts
Casper, Wyoming
Cattaraugus County, New York
Charleston, South Carolina
Charleston, West Virginia
Charlotte, North Carolina
Chattanooga, Tennessee
*Chelsea, Massachusetts (2)
Cheyenne, Wyoming
*Chicago, Illinois (6)
*Cincinnati, Ohio (3)
Clackamas County, Oregon
Clearwater, Florida
*Cleveland, Ohio (2)
Colorado Springs, Colorado
*Columbus, Ohio (2)
Cumberland, Maryland
*Dallas, Texas (3)
Davenport, Iowa
Denver, Colorado
*Des Moines, Iowa (2)
Detroit, Michigan
Durham, North Carolina
East Providence, Rhode Island
Elgin, Illinois
**Emeryville, California
**Evansville, Indiana
Ft. Worth, Texas
Gainesville, Florida
Great Falls, Montana
Green Bay, Wisconsin
Hartford, Connecticut
*Indianapolis, Indiana (3)
Inglewood, California
Ithaca, New York
Jackson, Mississippi
Jacksonville, Florida
Jersey City, New Jersey
Kalamazoo, Michigan
Kankakee, Illinois
Kansas City, Kansas
*Kansas City, Missouri (2)
Kenosha, Wisconsin
Knoxville, Tennessee
La Habra, California
Lafayette, Indiana
Lafayette, Louisiana
Lakeland, Florida
Lawrence, Massachusetts
Little Rock, Arkansas
Louisville, Kentucky
Macon, Georgia
Menlo Park, California
Miami, Florida
*Milwaukee, Wisconsin (2)
*Minneapolis, Minnesota (3)
*Nashville, Tennessee (2)
Newark, New Jersey
New Britain, Connecticut
New Haven, Connecticut
New Orleans, Louisiana

NEIGHBORHOOD REINVESTMENT ORGANIZED NHS PROGRAMS (Cont'd)

New York, New York
  Bronx (2)
  Brooklyn (2)
  Staten Island (1)
  Queens (2)
Niagara Falls, New York
Norwalk, Connecticut
Oakland, California
Oklahoma City, Oklahoma
Omaha, Nebraska
Orlando, Florida
Pasadena, California
Peoria, Illinois
*Philadelphia, Pennsylvania (3)
*Phoenix, Arizona (2)
Pittsburgh, Pennsylvania
Pontiac, Michigan
Providence, Rhode Island
*Pueblo, Colorado (2)
Quincy, Illinois
Quincy, Massachusetts
Reading, Pennsylvania
Richland Center, Wisconsin
Richmond, California
Richmond, Virginia
Rochester, New York
Saginaw, Michigan
*St. Louis, Missouri (3)
*St. Paul, Minnesota (3)
St. Petersburg, Florida
*Salt Lake City, Utah (3)
San Antonio, Texas
San Bernardino, California
San Diego, California
Santa Ana, California
Savannah, Georgia
Scranton, Pennsylvania
Shreveport, Louisiana
South Bend, Indiana
*South Portland, Maine (2)
*Springfield, Massachusetts (2)
Springfield, Ohio
Stamford, Connecticut
Syracuse, New York
Tacoma, Washington
*Tampa, Florida (2)
*Toledo, Ohio (2)
Trenton, New Jersey
Tucson, Arizona
Tulsa, Oklahoma
Union County, New Jersey
  Linden
  Rahway
  Roselle
Utica, New York
Vallejo, California
*Washington, D.C. (2)
Waterbury, Connecticut
Waterloo, Iowa
West Palm Beach, Florida
Wilmington, North Carolina
Winston-Salem, North Carolina

As of June 30, 1983, NHS Programs have been organized in 185 neighborhoods in 134 cities.

*Multi - Neighborhood Programs

**Originally organized as Neighborhood Conservation Services Programs

***Neighborhood Apartment Housing Services

ESTIMATE OF THE TOTAL REINVESTMENT
OCCURRING IN
NEIGHBORHOOD HOUSING SERVICES PROGRAM NEIGHBORHOODS
THROUGH FISCAL YEAR 1983

Support for Local NHS Program Activity		
Contributions to developmental costs (primarily by local governments)		$ 5,741,000
Contributions to NHS operating budgets (primarily by financial institutions)		67,774,000
Contributions to NHS revolving loan funds (local government, Neighborhood Reinvestment Corporation, foundations, other industry)		52,631,000
Purchase of NHS Loans (by Neighborhood Housing Services of America)		11,000,000
City expenditures for code inspections		13,860,000
	TOTAL	$ 151,006,000
Reinvestment in NHS Neighborhoods*		
Loans made through NHS loan funds		60,443,000
Loans made through financial institutions by referral from NHS		191,482,000
Loans made by city/state loan programs		28,103,000
New mortgages written in NHS neighborhoods		565,853,000
Other rehabilitation financed**		706,664,000
Capital improvements to NHS neighborhoods		151,496,000
	TOTAL	$1,704,041,000

*Estimates are based on documented activity through December, 1982; data collected by Urban Systems Research and Engineering, Inc. under contract to HUD; and through sample data collected for a research report entitled, Neighborhood Partnerships in Action, Neighborhood Reinvestment Corporation, August, 1981. The full amount of reinvestment cannot, of course, be attributed to the presence of NHS as some level of reinvestment may occur even in the absence of a program. The neighborhoods when selected, however, are deficient in reinvestment activity.

**Work financed by individuals through savings or money borrowed independently from financial institutions.

In a survey just completed of NHS programs, the following summarizes the sources of financial support for local NHS operating budgets:

	1981	%	1982	%
Savings and Loans and Savings Banks	$3,206,449	33.35	$3,822,639	28.27
Commercial Banks	2,225,783	23.15	3,198,394	23.65
Insurance Companies	686,960	7.15	948,000	7.00
Credit Unions	28,140	.29	26,270	.19
Corporations, Utilities, and Other Private Sources	1,430,974	14.88	2,536,557	18.76
Local Government	2,036,557	21.18	2,992,864	22.13
TOTAL	$9,614,863	100.00	$13,524,724	100.00

NEIGHBORHOOD HOUSING SERVICES OF AMERICA, INC.

Neighborhood Housing Services of America, Inc. (NHSA) was established as a private nonprofit, state-chartered, tax-exempt corporation in 1974. It gives added private sector strength to the NHS programs, and, through a secondary market, give the NHS programs access to the private investor market as a resource for replenishing their loan funds.

It was anticipated in NHSA's formation that this and other activities to meet common needs of the NHS programs would be carried out by NHSA in cooperation with Neighborhood Reinvestment. This approach has been effective and its continuation was authorized in the enabling legislation for Neighborhood Reinvestment:

> "The Corporation (Neighborhood Reinvestment) shall continue the work of the Urban Reinvestment Task Force in supporting Neighborhood Housing Services of America, a nonprofit corporation established to provide services to local neighborhood housing services programs, with grants to expand its national loan purchase pool, and may contract for service which it can perform more efficiently or effectively than the Corporation."

NHSA is a California corporation headquartered in Oakland, California. Its by-laws call for a 15-member board of directors and it currently operates with a staff of 21 persons located in Oakland; and Baltimore, Maryland. The staff was organized to contain all the staff and partnership skills involved in the NHS programs -- financial, community, and governmental processes -- and, on the basis of these skills, is able to make contributions to many aspects of Neighborhood Reinvestment's work related to NHS operations in general, as well as to the NHS revolving loan fund operations.

NHSA's board of directors includes volunteers representing the same resident-city-financial industry partnership which is the foundation of all the NHS programs, and functions as a resource board for the NHS programs both technically and substantively.

Secondary Market Operations

Because NHS revolving loan funds are designed to meet the needs of low income people, repayment schedules must be extended over several years to meet the borrower's ability to pay, and the funds revolve slowly. Thus, there is a need for an infusion of new capital to insure that the revolving loan funds keep pace with each program's ability to upgrade its neighborhood. Just as savings and loan associations and banks need a secondary market to which they can sell loans to replenish their ability to make new loans, the NHS programs also need a secondary market for their revolving loan funds.

To provide a mechanism for the continued flow of revolving loan dollars into NHS neighborhoods, NHSA created a loan purchase pool to serve as an interim secondary market for the purchase of loans from local NHS programs.

Annual contributions averaging $480,000 per year from the Neighborhood Reinvestment Corporation provided capital to set up and operate the loan purchase pool. In the meantime, NHSA secured the first buyer to change the character of the loan purchase pool into a true secondary market.

The buyer was The Equitable Life Assurance Society of the United States. In 1978, the Equitable signed a loan purchase agreement for $1 million in ten-year notes at a below market rate of 8-1/2 percent and later agreed to buy an additional $2 million worth of notes.

In 1981, The Prudential Insurance Company of America committed to purchase $5 million in 25-year notes at a below market rate of 9-1/2 percent for a First Mortgage Loan Purchase Program. The Prudential commitment is earmarked to those "problem properties" that escape the routine NHS upgrading procedures to which most homeowners respond. Strategies to address these properties include the purchase and rehabilitation of vacant houses, infill construction of new homes on vacant lots, and purchase, rehab and sale, or rental of blighted rental properties.

Early experience in the sale of loans to the secondary market has resulted in the replenishment of 58 NHS revolving loan funds to date totaling over $5 million, and future purchase commitments of $2 million. This early experience has also served to develop a workable, dependable mechanism for the NHS secondary market social investments which are needed to assist more than 180 local partnerships in upgrading urban neighborhoods across the nation.

The NHS secondary market is designed to provide substantial assurance to the social investors that NHSA can meet the financial requirements due under any Note Purchase Agreements. The built-in features have worked well in practice since the first note was issued to The Equitable Life Assurance Society of the United States in November, 1978.

NHS mortgages and a cash fund to assure timely payment of principal and interest payments on the NHSA notes are held by a bank trustee for the benefit of the note purchaser. As further security, when any loan being used for collateral for this indebtedness becomes 90 days delinquent, a non-delinquent loan is substituted for it. NHSA replaces the delinquent loan from its portfolio and then, under its agreement with the local NHS, the delinquent loan is returned to the NHS and another non-delinquent loan is forwarded to NHSA.

Servicing of the NHS loans which serve as collateral for the NHSA notes remains with the local NHS. Payments are forwarded to NHSA monthly. NHSA forwards payments to the trustee quarterly. The trustee holds the payments in a "Payment Fund" which is utilized to meet the quarterly payments due on the notes issued by NHSA under the Note Purchase Agreement.

The experience to date has shown no need to use any of the guarantee funds which were set aside to cover delinquencies. This is due to two factors: the NHSs make every effort to offer NHSA loans which they believe will not require substitution; and where substitutions are needed, there has been full cooperation. The need for substitution has been minimal, however, averaging about four per quarter and totaling only 65 over the four-year period of operations out of a total of 734 loans totaling $5,010,318 through September 1982.

One important reason that the secondary market operations can enjoy a sound loan experience is that the NHS loans are made at the ability of the borrower to repay. The interest rates on the NHS loans range from 0 percent to the market rate. NHSA purchases the NHS loans at par and seeks a balance offering of loans with an average rate and term which approximate the average rate and term of the NHS's overall loan portfolio. This has resulted in NHSA loan purchases which average a 5.31 percent interest rate and a 12-year term from NHS clients with a median household income of $9,540 per annum.

NHSA SECONDARY MARKET

NOTE PURCHASE PROGRAM PARTICIPANTS

	TWO-YEAR AGREEMENTS
PRUDENTIAL	$ 5,000,000
AETNA	4,000,000
ALLSTATE	4,000,000
EQUITABLE	3,000,000
WAUSAU	500,000
	$16,500,000

Discussions are underway with several other companies with a goal of reaching additional two-year agreements totaling $11,800,000. Proposals totaling $10,000,000 of this goal have been favorably received.

OFFICERS AND DIRECTORS

NEIGHBORHOOD HOUSING SERVICES OF AMERICA

JUNE 1983

Edmund C. Sajor, President
Director of Public Affairs
Pacific Gas & Electric Company
San Francisco, CA

Mary Lee Widener
Executive Vice President
Neighborhood Housing Services
of America, Inc.
Oakland, CA

Rev. Varnell Norman, Secretary
Little Rock, AR

Robert B. O'Brien, Financial Chairman
President, Carteret Savings & Loan
Association
Newark, NJ

Leslie N. Shaw, Treasurer
Vice President, Great Western
Financial Corporation
Beverly Hills, CA

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Cincinnati, OH

John P. DeWitt, Vice President,
Office of Social Initiative Investments,
The Equitable Life Assurance Society
of the United States
New York, NY

William Plechaty
Executive Vice President
The Continental Illinois National Bank
& Trust Company of Chicago
Chicago, IL

Hon. Joseph P. Riley, Jr., Mayor
Charleston, SC

Clarissa Walker, Agency Director
Sabathani Community Center
Minneapolis, MN

Alphonso Whitfield, Jr.
Vice President, Social Investments,
Public Affairs Department, The
Prudential Insurance Company of America
Newark, NJ

ADDITIONAL NHSA QUALIFICATIONS

NHSA's General Counsel is Orrick, Herrington & Sutcliffe, a prominent San Francisco law firm which is bond counsel to major corporations such as Bank of America and Wells Fargo Bank. The firm does all the legal work on new Note Purchase Agreements for the Secondary Market and administers all Note Closings. It provides its services on a pro bono basis.

The structure of the NHSA Secondary Market was created by Orrick, Herrington & Sutcliffe in cooperation with the NHSA Board of Directors, The Ford Foundation, and the Neighborhood Reinvestment Corporation. Help was also provided by the Federal Home Loan Mortgage Corporation.

A Committee of the NHSA Board of Directors, made up of members of NHS Board of Directors, worked through each detail of the policy adaptations of traditional secondary markets which would be necessary to accommodate the needs of the NHS clients. These adaptations related to such items as size of loans, interest rates, terms, counseling policies in relation to loan repayments, loan restructuring, and procedures for handling delinquent loans.

The goals of flexibility and fiscal soundness in the Secondary Market structure have been met and have proved to be administratively attractive for the NHS programs, NHSA and the financial supporters of the Secondary Market.

BIOGRAPHICAL SKETCH

Mary Lee Widener is Executive Vice President of Neighborhood Housing Services of America, Inc., Oakland, California. She is married to Warren Widener, former Mayor of Berkeley, California, who is President of the Urban Housing Institute, Oakland. They have three children, boys ages 14 and 12 year-old twins. She attended Southwestern State College and the University of San Francisco and received an Honorary Doctor of Laws Degree from John F. Kennedy University, Orinda, California.

Mrs. Widener is a co-founder of Neighborhood Housing Services of America. It was incorporated as a California corporation in 1974 to serve as a secondary market for the revolving loan fund loans of Neighborhood Housing Services programs (NHS) which now exist in over one hundred cities. Prior to that time, Mrs. Widener worked to evolve the NHS network, starting as an Urban Housing Coordinator with the Federal Home Loan Bank Board and later serving as a consultant to the Ford Foundation and Urban Reinvestment Task Force, while working as Executive Director of Oakland Neighborhood Housing Services.

Her international experience has included selection as a member of the International Exchange of Housing Professionals between the United States, England and Germany in 1977, a Member of the National Steering Council, Trinational Cities Exchange in 1978, and follow-up study visits to Western Europe in 1979 and 1980.

Mrs. Widener's civic activities include:

Member, Advisory Council, Alta Bates Hospital
Member, Board of Regents, John F. Kennedy University
Member, Advisory Council, The Federal National Mortgage Association (FNMA)
Member, Daniel E. Koshland Committee, The San Francisco Foundation
Member, Board of Directors, Bay Area Regional Housing Investment and Development Group (BRHIDG) (San Francisco Foundation originated Regional Housing Development Corporation)
Past Member, Board of Directors, Federal Home Loan Bank of San Francisco
Member, Board of Directors, Partners for Livable Places
Member, International Fraternity of Lambda Alpha
Member, Housing Advisory Board, Association of Bay Area Governments