THE IMPLEMENTATION OF THE BOSTON
HOUSING PARTNERSHIP

by

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Thomas F. McCormack

Submitted to the Department of Urban Studies and Planning on May 28, 1985 in partial fulfillment of the requirements for the Degree of Master of City Planning

ABSTRACT

The Boston Housing Partnership was formed in late 1982 to address the rental housing crisis that had surfaced in Boston by the early 1980's. The Partnership seeks to promote, organize, and manage programs that can salvage declining and abandoned housing and convert it into decent, affordable housing for low and moderate income families. Their first effort, a Demonstration program, began in late 1983. The Partnership will rehabilitate 700 units of deteriorated and abandoned housing across the city. This work is being accomplished through ten community based sponsors who will develop, own, and manage these units.

This thesis first looks at the economic, social, and political conditions that gave rise to the Partnership. Second, the Demonstration Program is briefly described and a short profile of each sponsor is provided. Third, the financing model used is described. Lastly, the implementation of the Demonstration program is analyzed.

The experience of the Demonstration program has shown that these "public-private" partnership responses to the recent federal cutbacks in housing assistance are extremely complex. They require a large number of actors to aggregate multiple sources of assistance. Such complexity has proven to be both extremely time consuming and expensive. The lessons learned in the Demonstration program should prove to be instructive to future "public-private" housing solutions.

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Attachments: Demonstration Program Summary, Board of Directors, Map of Community Sponsor locations
This is the most complete text of the thesis available. The following page(s) were not included in the copy of the thesis deposited in the Institute Archives by the author:

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II. The Context: The Origins of the Partnership

The following section provides an analysis of the economic, social, and political context that contributed to the creation of the Boston Housing Partnership. By 1982, a number of factors converged to help spawn the Partnership. The following analysis will look at the rental supply/demand imbalance, the low vacancy rate, and the resultant "affordability" crisis that appeared by late 1982. We will also examine the City of Boston's response, the creation of Goals for Boston, the local political scene, and the role of Greater Boston Community Development.

Boston's Housing Market

By late 1982, it was apparent that Boston was experiencing a dire shortage of rental units in decent conditions that low and moderate income households could afford.

Supply

Rental housing has long been the backbone of Boston's housing stock. Over 70% of the city's housing units are rental units -- one of the highest rental rates in the country. Seventy eight percent (78%) of these units are in multi-family structures (i.e., two or more units) and 53% are in large apartments (i.e., five or more units).

While the supply of rental housing remained relatively stable during the 1970's, the early 1980's signaled a significant shift. Many of the losses of 1-4 family units (primarily due to demolition) were replaced by a gain of 22,000 new subsidized units built during the 70's.

Since 1980, however, there has been a marked loss of available rental housing. Between 1980 and 1983, approximately 9,000 new condominiums were created from the existing rental stock. Around 60%
of these conversions occurred outside the downtown area in areas such as the Fenway and Allston-Brighton.  

Additions to the housing stock have not been sufficient to compensate for the loss of affordable rental housing. In October of 1983, the Boston Redevelopment Authority published a report that claimed Boston should be producing around 2,800 new low and moderate income units each year to accommodate new households and replace existing stock. New subsidized housing construction during 1980-1984 accomplished 17% of that goal (1,950/11,200). When one adds rehabilitated subsidized units, only 35% of the target has been met.  

Demand  
The number of renters over the past decade has stayed relatively stable, but their characteristics have changed dramatically. As Boston has become an attractive location for upwardly mobile professionals, there has been an increased demand for luxury rentals. These new households tend to be younger, smaller (1-2 persons) and more affluent than traditional renters. At the same time, however, Boston's rental housing stock continues to serve predominantly a population with limited incomes. Median household income in 1980 was only $10,410. Approximately 54% of Boston's families are eligible for subsidized housing. These low and moderate income renters are increasingly forced to compete with the new affluent for a limited number of available units. This added pressure has compounded the supply problem.  

Vacancy  
The upshot of these supply and demand trends is an extremely low vacancy rate in an extremely tight market. While a vacancy rate of 5% is often indicative of a reasonable balance between supply and demand,
Boston's rate is significantly below. The rate varies depending on the source. Based on decennial Census enumeration, the 1980 vacancy rate was 2.8%; the Rental Housing Association listed a vacancy rate of 2.46% in October of 1983; and the U.S. Postal Service Housing Vacancy reported 2.0% in February of 1984. While the numbers vary, each suggests a clear trend of limited rental vacancies.

Affordability

Increased demand for a limited supply, of course, has led to increased rents. According to the most recent Annual Housing Survey, median contract rents rose 44% between 1977 and 1981. The Rental Housing Association's Fall 1983 survey shows rents for available vacancies concentrated in the $400+ range, with over 25% at $600+. Emily Achtenberg, in June of 1984, produced a survey of Boston Globe listings for the first quarter of 1984. Median rent was $528, with over 35% renting for $600+.

Tenant incomes, however, have clearly not kept pace with tenant's abilities to afford rents. This has resulted in what many have called an "affordability crisis." Between 1977 and 1981, while rents rose 48% (55% in non-subsidized units) tenant incomes rose only 35%.

For low and moderate income renters, the problems became severe. While only 2-6% of vacancies available in early 1984 rent for less than $300 per month, an estimated 44% of Boston's renters needed apartments under $300 if they were to spend no more than 30% of their incomes for rent. City wide, only 30-35% of all renter households could afford the median rent by early 1984.

The City's Response

By late 1982, the City had begun to take a serious look at some of these problems. The Neighborhood Development and Employment Agency
(NDEA) produced a document entitled "Multi-Family Housing in Boston: Issues and Options."  

The paper acknowledged that there was "a substantial rental housing problem in Boston -- a dire shortage of rental units in decent condition that low and moderate income households can afford." They noted, however, that there was no shortage of under-utilized, poorly maintained or abandoned buildings, which if rehabilitated, could contribute to satisfying the needs of low and moderate income renters.  

Many of these investor owned non-subsidized buildings were of five or more units. The greatest number were also found in Roxbury, the Fenway/South End, and North Dorchester. The highest number of vacant buildings were found in Roxbury, Franklin Field, North Dorchester, and the South End/Lower Roxbury. Approximately 30% of the City's housing stock was located in these larger structures and 11,300 (out of 69,200) units were in need of rehabilitation. Owners were reluctant to invest in this multi-family housing, they pointed out, because of a combination of high financing costs, rapidly increasing operating and construction costs, and lagging rents.  

Past City housing programs attacked the problems of owner occupied, one to six family housing, but left the needs of the larger buildings untouched. According to Tim Pattison, the assistant director of NDEA's research and policy development division through 1984, the first five years of the Block Grant program (1975-1980) provided 20% rebates to over 18,000 1-3 family units. The needs of the larger multi-unit structure, he claims, were not being adequately addressed by the City.  

The report went on to state that "the economics of construction and rehabilitation make it increasingly difficult for the private sector to
meet virtually any portion of the need for moderately-priced rental housing." While the 1970's saw 22,000 new subsidized units to compensate for the lack of private development (only 3,100 units in the private sector), the reductions and elimination of the major federal subsidy programs put an end to that activity.

The report concluded:

A major new initiative is called for that could creatively combine CDBG, state, and private funds with other philanthropic contributions and in-kind services. It is not an initiative that the city can undertake alone. It calls for a partnership between the City, financial institutions, foundations, state agencies, and a variety of community organizations. (my emphasis)

This set the stage for what would later become the Boston Housing Partnership.

The Rise of Goals for Boston

Simultaneous to the NDEA's efforts to establish such a "partnership", were the efforts of a group known as Goals for Boston. Goals for Boston was established by the Chairman and President of State Street Bank and Trust Company, William S. Edgerly. This consortorium of public officials, private business lenders, and representatives of neighborhood organizations, was called together in 1980 by Edgerly to "define and support positive achievable goals for the city during the next five years." The Goals for Boston idea was part of larger national movement involving numerous business leaders. In February of 1982, the Committee for Economic Development (CED), a consortium of business officials from around the country, published a book entitled Public-Private Partnerships: An Opportunity for Urban Communities. Edgerly was extremely active in this effort aimed at encouraging partnerships in cities across the U.S, to help address the economic development needs of urban America. Edgerly's work on the
CED effort inspired him to start a Goals for Boston effort aimed at building new coalitions.

Goals for Boston originally targeted education, race relations, and jobs as its three areas for action. Although housing was not high on Edgerly's list of priorities, several members of Goals for Boston active in the housing sector, pushed to make housing a major focus.

One of these members was David Mundel, then head of the City's NDEA. Mundel was no stranger to either Edgerly or the "public-private partnership" idea. Together, Edgerly and Mundel had been the chief architects of the Boston Private Industry Council (PIC). The success of the Boston PIC, it is thought by many, provided the model for the structuring of PIC's in the Job Training Partnership Act of the early 1980's. With this experience under their belt, Mundel and Edgerly moved their efforts into the housing sector.

The Local Political Climate

The rise of Goals for Boston and the Boston Housing Partnership was also fueled by local political and economic factors. During the 1970's Boston had begun to experience unprecedented growth and development in the downtown area. By the early 1980's, however, Mayor Kevin White's administration was being scrutinized by many who saw this growth occurring at the expense of the neighborhoods. Indeed, many claimed a causal link between downtown development and the housing crisis. The new affluent "non-traditional" renters desiring proximity to downtown jobs were pushing up demand and pitting low and moderate income households against the new urban professionals.

The result was twofold. First, "Linkage" became a buzzword in the media as housing advocates called for a tax on downtown office development.
to create a "Housing Trust" that could help meet the neighborhood's housing needs. Second, there was a strong push for business prospering from the downtown boom to "share the wealth" with the neighborhoods. Goals for Boston was in part, an effort to respond to those calls.

The Federal Government

Against this backdrop, the "public-private partnership" was becoming a major component of national urban policy. The Carter administration, from 1978-1980, had advocated for a new public-private interface to leverage private investment in economically distressed areas. The Urban Development Action Grant Program (UDAG) was one of the major initiatives developed during this time.

The Reagan administration found the public-private partnership concept quite palatable -- particularly if it served to reduce the role of the federal government in fighting social ills in economically distressed areas. Recent federal cutbacks in housing assistance programs were accompanied by an espoused confidence that the private sector would mobilize to meet the needs previously met by government spending.

As part of a larger effort to cut government spending, the Reagan administration cutback the Section 8 New Construction and Substantial Rehabilitation program and the associated GNMA Tandem program. This fallout has left a gap that has since remained. As the NDEA "Issues and Options" paper noted, "without the subsidies provided in these programs, the rehabilitation of existing structures and construction of new housing for low and moderate income households is generally not feasible."21

In short, the fallout of the federal government from housing assistance created a gap that the Partnership attempted to fill.
The Role of Community Based Sponsors

Although Edgerly and Mundel had a fairly detailed analysis of the housing problem, they had only a vague notion about what the partnership solution would entail. Early in 1983, however, Pat Clancy, director of Greater Boston Community Development (GBCD) began working closely with Edgerly to set out the framework for the Partnership.

GBCD is a non-profit housing development and consulting firm. They were originally incorporated in 1964 as South End Community Development (SECD) and gained expertise in developing three decker row houses in Boston's South End. They later expanded, took on a regional scope, and shifted to providing development assistance. They have assisted in developing over 2,000 new units for low and moderate income people in the Metropolitan area and manage over 700 units. Under Clancy's guidance, GBCD also became known as the pioneer in the syndication of low income housing.

The Partnership Board

The Boston Housing Partnership was formed as a non-profit corporation early in 1983. A 23 member board was picked by Edgerly (with the assistance of Clancy). The board consisted of six bank presidents, four representatives of community-based organizations, three state housing officials, three City housing officials, and representatives from insurance, law, real estate, and universities. (see Appendix for a complete list of board members.)

Goals of the Partnership

The Partnership set forth some fairly general goals:

-to promote, organize, and manage programs that can salvage declining and abandoned housing and convert it into decent, affordable housing for low and moderate income families.
-mobilize funding and other resources from the business community and government agencies for neighborhood-based organizations so the public and private sectors attack housing problems jointly.

-provide technical assistance to community-based sponsors of low and moderate income housing to enhance their capabilities to develop and manage housing.

The repeated emphasis on "community based sponsors" is no accident. Boston has a rich network of community based housing development organizations. Community based housing had its origins in the 1960's when the first successful community development corporation (CDC) in Boston, Inquilinos Boriucas en Accion (Puerto Rican Tenants in Action) formed in 1967 to protest potential displacement of urban renewal. IBA was later named developer of Parcel 19 by the BRA and has since developed over 800 units. There are approximately 20 other CDC's in Boston.

Clancy, from early on in structuring the Partnership, served as an effective advocate for community based housing sponsorship. While many were initially hesitant to limit the program to non-profit developers, GBCD's experience in the non-profit or "community based housing sponsor" field, eventually convinced them that non-profit developers could handle the tasks of a demonstration program more efficiently than private developers. Thus, the exclusive use of non-profit developers became an integral part of the Boston Housing Partnership.

Institutional Changes

In addition to community based sponsorship, the Partnership took on a second goal. To facilitate the transfer of ownership to community sponsors and to lessen development costs, the Partnership Board decided to simplify and speed up the process for the city to foreclose on properties with significant tax arrears and to abate most of the tax debt where the
owner was willing to sell to community sponsors. In the past, community
groups trying to rehabilitate tax-title or tax delinquent properties had
experienced many problems. With approximately 15 different city
agencies involved in an uncoordinated manner, the foreclosure process
could take up to two years. A major goal of the Partnership therefore was
to simplify and shorten the process of foreclosing.

In situations where the buildings to be rehabilitated were in tax
arrearage and the owner was willing to sell to a community sponsor, the
Partnership hoped to facilitate direct transfer of ownership with tax
abatements. This would avoid the need for the city to take over the
building and was possible through Chapter 8, Section 8 of the
Massachusetts General Laws, which requires that the city assessor recommend
to the state revenue department that these abatements be made.
III. The Demonstration Program

The first task taken on by the Boston Housing Partnership is the Multi-Family, or Demonstration Program. The program will rehabilitate 700 units of deteriorated and abandoned housing and maintain it as housing for primarily low and moderate income households. The Demonstration Program targeted declining and abandoned properties not likely to be restored by private market forces. Community based organizations were solicited in late 1983 to identify suitable buildings, obtain site control, and submit applications to the Partnership to develop and manage the housing.

The Partnership hired GBCD to design the Demonstration Program and to develop the financing details. Bonnie Heudorfer, the first executive director of the Partnership, was "loaned" to the BHP by the Bank of Boston, where she is a Community Investment Officer. She coordinated the Demonstration program during the initial six month planning period (February-August 1983).

In August, 1983, the BHP issued a Request for Proposals announcing the Demonstration program to non-profit, community based sponsors. The proposal contained a 36 page application and a 56 page program handbook describing the Demonstration Program. Applications were due on October 31, 1983. GBCD's services were made available free of charge to assist in tasks such as identifying buildings, negotiating purchase prices and site control, and identifying a development and management team.

The major provisions of the RFP included:

- A total of 500 units would be funded
- Projects should be from 30-100 units in size
- Projects should include buildings which, on average, could be acquired and rehabilitated for approximately $26,000 per unit.
In addition, projects were encouraged to include properties with tax and utility arrearages; projects were allowed $4,500 per unit for other development expenses, such as architectural and engineering studies, legal fees, and consultants; buildings were required to meet all city and state, zoning, sanitary, and building codes.

In total, the Partnership received applications from fourteen community-based organizations for a total of 1061 units. Two proposals (East Boston CDC and the Roxbury Action Program) were rejected due to lack of feasibility and site selection. The remaining twelve sponsors received authorization in December for a total of 800 units, up from the 500 units originally announced. Two groups eventually withdrew their applications, bringing the total down to 700 units. The South Boston CDC's community objected to the affirmative marketing requirements of the program, and Nuestra Communidad objected to the Partnership's rejection of what they thought was a key building from their project.

Sponsors

The ten sponsors selected are detailed in the following section, along with some information about the buildings they are rehabilitating. 23

Allston-Brighton Community Development Corporation

Board of Directors that includes representatives of all major neighborhood and civic organizations concerned with Allston-Brighton

Rehabilitated old school building for moderate income (condominium) homeownership (10 units)

On-going organizing and outreach to Indo-Chinese community

Under BHP program will rehabilitate 1-39 Hano Street in Allston to provide 10 two-bedroom and 10 three-bedroom units

Fenway Community Development Corporation

Participated as a limited partner in the rehabilitation of 100 units in 10 vacant buildings on Westland Avenue using Section 8 Substantial Rehabilitation, syndication, and an Urban Development Action Grant
Awarded HUD Cycle V Solar Energy Demonstration Grant for installation of residential solar systems in the Fenway

Rehabing a large surplus city building and Edgerly playground

Under BHP, will rehabilitate 20 units at 69-71 Westland Avenue

Fields Corner Community Development Corporation

Constructed 8 prefabricated homes on empty lots with a number of public financing schemes

Involved in the development of One Acadia Place, a mixed use development combining office and commercial space with housing, financed through a $340,000 Urban Development Action Grant

Under BHP program, rehabbing 76 units in 6 buildings:
1396 Dorchester Avenue
110-112 Park Street
1-3 Josephine Street
38 Leroy Street
12 Arcadia Street
460-462 Geneva Avenue

Lena Park Community Development Corporation

Oldest community development corporation participating in the Demonstration Program, established in 1968.

Has largest operating budget of any sponsor in Partnership

Rehabilitated 8 houses on Franklin Street using CDBG

Involved in a number of direct social service projects, including youth activities and administration of Orchard Park Neighborhood House and Recreation Center

Under BHP will rehab 93 units in 11 buildings:
69 Glenway Street
20 Fowler Street
53-55 Glenway Street
3-5 Esmond Street
102-112 Talbot Avenue
1310 Blue Hill Avenue
5-15 Fessenden Avenue
31-31A Fessenden Avenue
4 Wellington Hill Street

Codman Square Community Development Corporation

Developed Norfolk Terrace Apartments for low-income senior citizen housing (17 units)
Working to put a number of Dorchester buildings into a National Historic District

Under BHP will rehabilitate 12 buildings totalling 80 units:
- 7 Capen Street
- 225-227 Norfolk Street
- 554 Washington Street
- 115 Maxwell Street
- 119 Maxwell Street
- 24 Crowell Street
- 1749 Dorchester Avenue
- 1757 Dorchester Avenue
- 3 Gaylord Street
- 706-708 Washington Street
- 710-728 Washington Street
- 26-28 Thane Street

Dorchester Bay Economic Development Corporation

Began as a conglomeration of three neighborhood civic associations (Savin Hill, Jones Hill, and Virginia-Monadnock)

Manages an Urban Homesteading program focusing on rehabilitating blighted and abandoned housing (15 units)

Rehabilitated a two- and three-unit building and sold buildings back to the occupants

Tentatively designated developer of Pierce Building in Uphams Corner, Dorchester for mixed-use development

Preserved neighborhood open space by creating the Virginia/Monadnock Park

Under BHP, will rehabilitate 58 units in 5 buildings:
- 14-15 Roach Street
- 20-24 Roach Street
- 1285-1291 Massachusetts Avenue
- 2-12 Dudley Terrace
- 1125-1129 Dorchester Avenue

Mission Hill Neighborhood Housing Services

Provides technical and financial resources to neighborhood homeowners and tenants

Rehabilitated 6 units for elderly housing using Chapter 707 program

Administers Section 8 Existing housing (40 units) for Boston Housing Authority
Under BHP, will rehabilitate 74 units in 5 buildings:
7-17 Delle Avenue
56 Delle Avenue
7 Frawley Street
11 Frawley Street
15 Frawley Street

Quincy-Geneva Housing Development Corporation

Board of Representatives includes representatives from Stanwood Street Block Association and the Roxbury Multi-Service Center

Roxbury Multi-service Center has administered an Urban Homesteading program (9 units)

Roxbury Multi-service Center offers wide array of service programs, such as youth job training, housing information and referral and neighborhood activities

Stanwood Street Block Association has organized successful Neighborhood Crime Watch to deal with arson and vandalism

Newest sponsor in demonstration program (incorporated in 1983); only sponsor without at least one paid, full-time staff person

Under BHP, will rehabilitate 101 units in 10 buildings:
200-204 Columbia Road
94-96 Intervale Street
42 Holborn Street
90 Stanwood Street
96 Stanwood Street
36-38 Normandy Street
538-544 Warren Street
229 Columbia Road
564-568 Warren Street
572-572A Warren/1-3 Intervale/40-50 Brunswick Streets

Roxbury-North Dorchester Neighborhood Revitalization Corporation

Extensive program of housing counseling for low-income neighborhood residents, funded through CDBG

Rehabilitating a three-unit abandoned building with mortgage loan from local bank

Under BHP, will rehabilitate 96 units in 6 buildings:
2029-2037 Columbus Avenue
2041-2049 Columbus Avenue
25 Wyoming Street
39 Wyoming Street
185-187 Walnut Avenue
189-191 Walnut Avenue
Urban Edge, Inc.

Most experienced group in housing rehabilitation

Only sponsor with "in-house" staff of designers, architects and building managers

Has rehabilitated average of 100 units/year for the last ten years, much of this vacant housing

Activities funded extensively with CDBG monies

Under the BHP they will rehabilitate 83 units at:
Dixwell
Seaver Street
Minden Street
Day Street
Jess Street
Columbus Avenue
IV. Project Financing

Introduction

The Financing structure of the Boston Housing Partnership is incredibly complex. In essence, the Partnership model aggregates virtually every available subsidy and financing source into one package.

The financing structure is fundamentally a reaction to the recent federal cutbacks in deep subsidies (particularly in the Section 8 program) and therefore should not be viewed as an "ideal" model. Rather, it is an effort to "piggyback" as many available resources as possible to make such large-scale rehabilitation efforts possible.

There are two major purported benefits of the "model". First, it achieves economies of scale. A typical development by a non-profit might involve as many as ten different funding sources. The costs of structuring these deals, however, often results in extremely high total project costs. The Partnership effort, on the other hand arranges public and private commitments of loan and grant support into one neat package for the ten sponsors. The second benefit of the financing model is that it allows the sponsors to devote more of their time to the nitty-gritty issues involved in the development process (i.e., site selection, project management, etc.) while the Partnership does the financing arrangements.

The financing structure has been touted by many as a potential "model" for other cities facing a situation similar to Boston's. In an era of diminishing resources for housing rehabilitation, such proponents claim, resources must be pooled and the Partnership offers an innovative opportunity.

The package, however, is anything but "neat". Several of the sponsors I interviewed wondered aloud if there really was any "one individual who
understands how this thing works". Bob Whittlesey, the Partnership director, claims that there is probably no one individual outside of the Partnership staff who understands how the deal is structured.

The reasons for this are twofold. First, there are literally dozens of institutions and individuals involved. Keeping track of the agency acronyms is itself no small feat. Second, and more crucial, is that the financing was much more of a "process" than an actual "product" especially during the early days of the Demonstration Program. Loan and subsidy commitments from the various funders involved came gradually. Getting agencies "on board" was an incremental task. While it was possible to catch a glimpse of the deal at any given point in time, it was highly likely that the deal would change by the time one took a second look. More on this later, but for now the critical point is that the process that built the financing package produced a situation in which not even the sponsors themselves comprehended the complexity.

Overview

The following is something of a snapshot in time. It describes what the financial structure of the Demonstration Program looks like as of early 1985. It is probably safe to assume that much of it is stable because all of the major actors have given commitments to participate. There may, however, be additional minor changes.

Four major Banks are the originating construction lenders, led by the First National Bank of Boston. The Federal National Mortgage Association, as the permanent loan risk taker, will purchase the mortgages from these banks on the secondary mortgage market at the end of construction. They will then issue securities backed by the mortgages. These mortgage-backed securities will be purchased by the Massachusetts Housing Finance Agency
Equity is being raised through syndication. The individual project tax shelter benefits are being pooled into one large offering and sold to limited partner investors.

"Front-end" development grants are being funded by the City of Boston and several foundation sources.

Working capital reserves are being loaned to the Partnership projects by the Community Development Finance Corporation (CDFC) and the Local Initiatives Support Corporation (LISC).

Rental Assistance will be provided by the State of Massachusetts's Chapter 707 program and the State Housing Assistance for Rental Production (SHARP) program. The Section 8 Moderate Rehabilitation Program and Section 8 Certificates in place will also be utilized.

The following sections examine the financing structure in a bit more detail.

First Mortgage Financing

First Mortgage loans are generated through a particularly complex arrangement involving participation by four Boston financial institutions (First National Bank of Boston, Bank of New England, Shawmut Bank of Boston, and State Street Bank and Trust Company), the Massachusetts Housing Finance Agency (MHFA) and the Federal National Mortgage Association (FNMA).

Construction Lending and Loan Origination: The Banks

First mortgage loans will be originated and funded by a consortium of four major Boston commercial banks (see above). By early April of 1985, half (5) of the sponsors had either entered into loan closing negotiations with these banks or had actually closed
The loan risk during construction will be born by these originating lenders -- if the projects go into default during this period, the defaulted loans will end up in the hands of these banks. The banks role in assuming this risk is seen by many as a healthy step reflecting their substantive involvement.

The Bank of Boston is serving as the lead Bank that coordinates the review work on behalf of these lenders. Each project is reviewed individually.

Total loans will amount to approximately $17.8 million for the ten sponsors. The interest rate will be the rate set by the MHFA Multi-Family Housing Revenue Bonds (around 10.5%) plus fees required to cover FNMA fees and fees required by the bond documents. (see the section on 4. Bond Financing: MHFA)

CDBG Build Loan

In addition to the bank's construction loan, $4.5 million will be provided by the City of Boston through its CD Interim Financing program. This program provides short term financing at below market rates (3% in this case) to projects considered to have significant public benefits.

This money, however, is to be drawn from CDBG funds available to the City. It is expected that the city will want to spend this on other activities at a later date. The City needed an assurance that if the CDBG money needed to be recalled early, they could get their money back. State Street Bank, therefore, provided a $4.5 million letter of credit. The collateral for the letter of credit was four years of syndication proceeds.

FNMA Loan Purchase Arrangements

The Federal National Mortgage Association (FNMA) has committed to purchase the mortgages from the banks at the initial loan closings. FNMA
will assume the First Mortgages and the banks have made a commitment to FNMA to repurchase the mortgages should the respective projects fail to reach completion of construction.

In turn, FNMA will issue securities backed by the First Mortgage Notes purchased. These mortgage backed securities (MBS) will then be purchased by MHFA, using proceeds from tax-exempt bonds.

FNMA, therefore will assume the permanent lending risk. Each project must meet their underwriting criteria and be reviewed individually.

Bond Financing: MHFA

The Massachusetts Housing Finance Agency (MHFA) is a state agency organized for the purpose of financing housing for low and moderate income persons and families. They do this by issuing tax-exempt notes and bonds. Their interest rates on MHFA loans, therefore, are generally below conventional mortgage rates.

MHFA, after reviewing each project for overall feasibility, issued a $22.3 million tax-exempt bond offer in December of 1984. The market for these bonds was assured in advance by the aforementioned banks solicitation of purchasers among the financial and insurance community in the area.

The MHFA bonds are secured by the Mortgage backed securities issued by FNMA rather than the loans themselves. The proceeds from these tax-exempt bonds will be used to purchase the MBS's

This complex mortgage structure is considered advantageous to the Partnership because it enhances the credit worthiness of the tax-exempt bond issue. MHFA note and bond issues are normally backed by the moral obligation of the Commonwealth of Massachusetts and receive a A- rating from Standard and Poors. The multi-tiered purchasing arrangement just described, however,
allows the bond issue to be rated AAA and therefore results in reduced financing costs for the projects. Pat Clancy, director of GBCD, estimates that the bond rate was reduced perhaps 3/4 of a point through this arrangement which takes advantage of the high credit rating of the FNMA guarantee.

MHFA bonds bear a variety of interest rates and maturities, but their blended rates and terms will result in project mortgage interest rates of 10.5% per year and terms of 21 years.

**Equity Financing: Syndication**

The Partnership utilized the expertise of GBCD to arrange the equity financing for all projects by organizing a pooled syndication offering. GBCD was the pioneer in the early 1970's in utilizing tax laws to benefit developers of low income housing. In short, in a syndication offering, the tax shelter benefit generated by a project (primarily through depreciation allowances and interest payments) is sold to a group of limited partners. These funds are then used as equity.

The major advantage of the pooling of the projects into one financial package is probably most evident in the syndication offering. Syndication deals often involve substantial placement fees, financial consulting fees, and legal fees. Pooling the syndication, however, achieves significant economies of scale in these costs and fees. Many fees and costs are relatively fixed in putting together a syndication offering and large deals are often much more economical. In the long run, this leaves more money for the limited partners and enhances the marketability to investors.

In order to raise equity financing, a limited partnership was created by all of the project sponsors. Each of the non-profit corporations has a
for-profit subsidiary who serves as the general partners in a limited partnership. Limited partner investors have been identified by the syndication placement agent, Summitt Company.

The pooled equity amounts to $8.8 million. A typical unit which has a development cost of $38,000, therefore, receives approximately $6,700 in syndication payments. Roughly $3,000 in equity funds will be generated during the development period when projects are being renovated and achieving full occupancy. The remaining $3,700 will be borrowed during this period against the receipt of later capital contributions through 1989.

"Front-end" Grants: City of Boston and Foundations

The City of Boston, using CDBG funds of $4.5 million, and three foundations sources (the Public Welfare Foundation, the Hyams Trust, and the Mabel G. Riley Foundation), contributing approximately $500,000, have helped create a $5 million pool of funds to assist in paying development costs. Because this is a grant, the sponsors do not need to reimburse the donors.

The Partnership, however, is treating these "grants" as loans to the non-profit sponsors. The non-profit sponsors will in turn, "loan" these funds to the limited partnership. This loan will become a second mortgage on the property. This creative second mortgage increases both the depreciation and interest deductions available to the limited partners, thereby enabling additional equity to be raised.

The repayment of this debt from the limited partnership to the non-profit is largely deferred for fifteen years, so repayment does not increase the debt burden. At the end of eighteen years, the limited partnership will owe substantial funds to the community sponsor, which can then use the
value of these funds to help assure that the further use of the property
continues to meet community needs for affordable housing.

The total amount loaned to each Local Limited Partnership by the
respective non-profit affiliate will be approximately $6,100 per housing
unit.

Working Capital Reserve Funds: CDFC, Ford, and LISC

Capital reserve funds will be created for each project at the initial
loan closings. These working capital funds will total approximately $1.9
million (2,400 per unit) and are expected to be available during construction
for overruns in development costs. If unused, these funds will become
operating reserves to remain in place until one year of breakeven operations.

The working capital reserves are coming from three lending sources:
the Massachusetts Development Finance Corporation (CDFC), the Local
Initiatives Support Corporation (LISC), and the Program Related Investment
Division of the Ford Foundation. CDFC is a quasi-public agency created by
the Massachusetts Legislature to provide loan funds and grants to community
development corporations; LISC is a national organization that provides
loans and grants to community corporations to promote physical and economic
development. These loans will go to the BHP and/or the non-profit
affiliates of each local general partner, which will then loan them to
the Local Limited Partnership. The eighth and ninth syndication payments
will back these working capital loans.

State Housing Assistance for Rental Production (SHARP) Loans

Seven of the nine projects have received commitments from MHFA for
rental assistance through the State Housing Assistance for Rental
Production (SHARP) program. Projects receiving SHARP commitments will
receive annual payments in the form of interest free loans to subsidize
the cost of debt service on their permanent financing. SHARP loans are
due and payable at the end of fifteen years or at sale and/or refinancing.
The amount loaned will total approximately $850,00 for fifteen years.
(For more information on SHARP, see section C. under "Rental Assistance
Programs".)
V. Rental Assistance Programs

Even with the write downs involved in the construction cost, the resulting unit rents of approximately $500 for a two bedroom unit would be above the means of most low income families. The projects, therefore, will receive rental assistance from two federal and two state programs: the Section 8 Moderate Rehabilitation Program and Existing Housing Programs, the Chapter 707 Rental Assistance Program, and the SHARP program.

Chapter 707 Rental Assistance Program

The Commonwealth of Massachusetts' Executive Office of Communities and Development (EOCD) has committed 231 units of Chapter 707 Rental Assistance to the BHP for allocation to the local limited partnerships.

EOCD will provide annual contributions to an administering agency (the BHP through initial occupancy and possibly the Boston Housing Authority afterwards) to provide rental assistance payments to the sponsors for eligible tenants. The tenants rent share may not exceed 25 percent of household income.

EOCD has agreed to allow rents in assisted projects to be equal to 110% of the Section 8 Existing Fair Market Rents. Allowable rents are as follows:

<table>
<thead>
<tr>
<th>Bedroom Units</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 bedroom</td>
<td>$418</td>
</tr>
<tr>
<td>1 bedroom</td>
<td>$482</td>
</tr>
<tr>
<td>2 bedroom</td>
<td>$567</td>
</tr>
<tr>
<td>3 bedroom</td>
<td>$648</td>
</tr>
<tr>
<td>4 bedroom</td>
<td>$777</td>
</tr>
</tbody>
</table>

Chapter 707 subsidies are committed to the buildings and have a contract term of five years, renewable at the end of each five year term. Income limits are similar to those used in the Section 8 program. (see below)

Section 8 Housing Assistance

The Section 8 Program, created by the Housing and Community Development Act of 1974 (which amended Section 8 of the U.S. Housing Act of 1937)
originally had several components. The Section 8 programs designed to facilitate new construction of and substantial rehabilitation of low-income family housing units has recently been terminated by the Regan Administration. However, portions of these programs remain intact and two are being utilized by the BHP -- the Section 8 Moderate Rehabilitation Program and the Section 8 Existing Housing Program.

The U.S. Department of Housing and Urban Development (HUD), in both programs will pay the sponsors the difference between a federally determined contract rent and 30% of gross family income. Contract rents generally may not exceed the "Fair Market Rent" -- the highest rents chargeable in each market area for unsubsidized, modest rental units. In this case, HUD has allowed Fair Market rents to be 120% of existing FMR for the Mod Rehab program, and 110% of existing FMR for the Certificates-in-Place.

HUD requires that 95% of the tenants assisted under these programs fall within their "very low income" guidelines. Current Section 8 income limits in Boston are as follows:

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Low Income (80% of median)</th>
<th>Very Low Income (50% of median)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 person</td>
<td>$18,100</td>
<td>$11,300</td>
</tr>
<tr>
<td>2 persons</td>
<td>$20,700</td>
<td>$12,900</td>
</tr>
<tr>
<td>3 persons</td>
<td>$23,250</td>
<td>$14,550</td>
</tr>
<tr>
<td>4 persons</td>
<td>$25,850</td>
<td>$16,150</td>
</tr>
<tr>
<td>5 persons</td>
<td>$27,450</td>
<td>$17,450</td>
</tr>
<tr>
<td>6 persons</td>
<td>$29,100</td>
<td>$18,750</td>
</tr>
<tr>
<td>7 persons</td>
<td>$30,700</td>
<td>$20,050</td>
</tr>
<tr>
<td>8 persons</td>
<td>$32,300</td>
<td>$21,300</td>
</tr>
</tbody>
</table>

More than 90% of all current beneficiaries of the Section 8 program fall into the "very low income" category, so it is not expected that this requirement will affect the program significantly.

Urban Edge has eighteen units of Section 8 Moderate Rehab subsidy. Dorchester Bay and Mission Hill each have approximately 30. In addition,
the City of Boston make 100 units available to the Partnership.

Approximately 60 of the households currently occupying units hold certificates entitling them to receive rental assistance through the Section 8 Existing Housing Program. In addition, the City made 50 units of Section 8 Existing Housing Certificates (made available through the third round of the HUD Rental Rehabilitation Demonstration Program) available to the BHP.

In total, therefore, the BHP Demonstration Program will have 231 Chapter 707 Certificates, 168 Section 8 Moderate Rehab units, and 110 Existing Section 8 Certificates. In other words, 70% of the units (509/730) will receive either Section 8 or 707 assistance.

State Housing Assistance For Rental Production

The State Housing Assistance for Rental Production (SHARP) program is a new state effort enacted in 1983 to stimulate the development of additional rental housing and ensure that 25% of these units be affordable to low income households.

The program, administered by MHFA, consists of payments made under a no-interest loan which subsidizes the cost of mortgage interest payments to a level no lower than 5 percent for a maximum of fifteen years.

Each local limited partnership will be obligated to repay the full amount advanced after fifteen years or at sale and/or refinancing. Because the SHARP legislation requires that proceeds from the repayment of these loans be used to benefit low and moderate income tenants, owners may be allowed by MHFA to recycle the loan repayment back into their developments if such use is necessary to ensure the continued availability of affordable housing to low and moderate income renters.

Selection of projects was made by MHFA through a competitive funding
round, in which the BHP projects competed individually for assistance. Seven of the ten projects received commitments of SHARP assistance in August of 1984, with the aggregate of SHARP funds awarded equalling $850,000 per year.

The seven sponsors who were awarded SHARP funding were Quincy-Geneva, Lena Park, Mission Hill, Allston-Brighton, Codman Square, Fields Corner, and Roxbury-North Dorchester. Urban Edge and the Fenway were not selected. Dorchester Bay did not request SHARP funding because they did not feel that their project required it. They had all 707 and Section 8 assisted units.
VI. Implementation

When one asks any of the BHP program designers or participants to describe the program, one is bound to hear the word "COMPLEX" mentioned. Marvin Siflinger, director of MiFA has "seen nothing this complex in all my years in the housing business". Pat Clancy, director of GBCD and principal planner of the project financing, claims that while he realized it would be complicated "as the program unfolded, the complexity originally envisioned doubled". To attempt to tell the entire story surrounding the implementation therefore, would be impossible. Instead, the following section will highlight some of the more significant factors that unfolded between late 1983 and early 1985 to shape the project outcome.

Getting the Banks to Play

One of the major battles of the Partnership, as might be expected, was getting the Banks to actively participate in the financing. While it was clear that Edgerly was a prime mover behind the Partnership, it was less clear what that meant in financial terms.

The first attempt at defining the financial package, came from the city. A December 1982 memo from NDEA laid out the initial program design. Among other things, it assumed that first mortgage financing would be provided through a tax-exempt bond issue - purchased by the Banks. These bonds would carry a 40 year term and a below market, fixed rate. As Bonnie Heudorfer, the Partnership's first executive director noted: "The plan was a dream. The Banks rejected it immediately". Heudorfer pointed out that banks generally do not need tax-exempt income of this sort. In fact, no institution wants to have a large amount of tax-exempt paper from a single financing in their portfolio. Bankers are also wary of holding long term,
fixed rate notes (particularly below market). With the first city-initiated attempt rejected, it was back to the drawing board.

The second attempt came primarily from GBCD. They envisioned MHFA or CDPC doing the first mortgage financing with revenue bonds. The bond issue was to be credit enhanced by a letter of credit from the Bank of Boston. The banks rejected this also. As Heudorfer recalls: "they didn't like it. It was something that hadn't been done before and they felt it was too complicated". It was back to the drawing board again, but this time, a significant shift occurred that would have a great impact on the final product.

It was becoming clear to Edgerly and Clancy that the banks would never actively participate in the financing unless they were more involved in planning their own role. The major stumbling block, up to this point, it was felt, was that the program was perceived as "just another city program". As Heudorfer points out, "although NDEA had originated the idea, it became clear that we would need to orchestrate this to look like the city wasn't calling the shots". The success of the Partnership, it was felt would hinge on whether the banks would provide financing. To get them involved, "they had to feel like it was their program, not the city's". The Partnership, therefore, turned to the banks for an active proposal.

The first thing that happened was that the Banks expressed their dismay at the RFP. By January of 1983, the RFP was well on its way to completion, despite the fact that no solid financing arrangement had been agreed upon. They decided to halt the RFP from being sent out until the financing structure solidified. Second, they began to offer their own suggestions.

The Bank of New England had been particularly reluctant to participate in the previously mentioned schemes. The suggestion that FNMA buy the
permanent mortgages came from them. If FNMA would hold the permanent mortgages, the bank's risk could be limited to construction. FNMA could also provide the credit enhancement to the bond issue. As mentioned, the final financing package involved this tripartite arrangement between the banks, FNMA, and MHFA.

Getting FNMA to Play

Getting FNMA to agree, however, was extremely difficult. Heudorfer described FNMA as the biggest stumbling block the Partnership had to hurdle. They were very slow to agree to the financing for a number of reasons. First, they were the only member of the Partnership who were "outsiders". They were not involved on the Partnership board and had little if any local presence. Communication, therefore, was time consuming. The Partnership communicated primarily through FNMA's Community Development Department, who according to Heudorfer "were looking for a project that could help them justify their existence". While this department seemed cooperative, others at FNMA were less so. Heudorfer recalls when the FNMA appraisers arrived in Boston; "after touring the individual projects, they were shocked. They don't normally do deals like this". While their CD Department had given earlier indications to the Partnership that they would participate, "when the appraisers saw the building conditions and locations, their jaws dropped". FNMA was in the end, committed, but extremely cautious.

CDBG Build Loan

As mentioned earlier, the City of Boston agreed to give the Partnership a low interest loan $4.5 million in addition to the CDBG grant money of $4.5 million. The "Build" loan, however, was not without strings. The money is coming out of a pot of unused federal money that the city might
want back to use in other CDBG projects. As Bob Whittelsey notes; "this means that the city can recall this money at any time". The Partnership, therefore had to assure the City that they would, in fact, return the money if necessary. The Partnership turned to the banks for this assurance. Bob Whittelsey had to convince the Bank of Boston that the banks should issue a letter of credit backing the loan. The letter of credit would be secured by the future syndication payments.

Needless to say, the banks were reluctant once again. If the program failed, there would be no future syndication payments and they'd be out $5 million. By this time, however, the program had begun to roll. Sponsors were well on the way in preparing work estimates, and many had purchased buildings when their option agreements expired, because they felt the program would work if the banks were behind it. The pressure on the Bank of Boston was enough to force them to agree to a rather risky arrangement, but not without concessions from the Partnership.

As Bob Whittlesey notes; "the complexity and costs involved in arranging this particular arrangement were unbelievable. As you might imagine, we did lots of lawyering back and forth over this one". Such "lawyering", of course, is both time consuming and costly. The banks agreed to the letter of credit but spent a lot of time attempting to limit their liability. For example, the Bank wanted a $1 million dollar cash guarantee from the Partnership in case of project default. At some point, the "lawyering around" became senseless -- as Whittlesey noted; "I kept telling them, all I've got is this rented office, a typewriter, and a computer. You can have it, but it ain't worth a million dollars".

**SHARP Subsidies**

Another stumbling block for the Partnership was the SHARP subsidy
program. This too proved more time consuming than was originally anticipated. Pat Clancy had served on the Governor's Task Force on Housing that had worked to put together the SHARP program. He was well aware that the program could be very useful to the Partnership projects. Although EOCD had agreed to set-aside of Chapter 707 subsidies, MHFA did not agree to a set-aside for SHARP. CDC's therefore had to participate in a competitive process for SHARP assistance.

The SHARP program was new in 1984 and was delayed twice. First, legislation creating SHARP took longer than expected to pass. Second, MHFA was in charge of putting together the guidelines and this also took additional time. It was not until March of 1984 that sponsors were notified that they would have to compete for SHARP. Applications were due May 31 and decisions were made August 15.

The mortgage applications, which were to be submitted to MHFA had to wait until the SHARP awards were made because many of the projects' feasibility would be uncertain without them.

MHFA and Prevailing Wages

The tripartite financing arrangement also brought in MHFA as the bond issuer. This move triggered the requirements of the federal Davis Bacon Act. "Prevailing wages", which average $20-$25 per hour, were to be paid in all project rehabilitation work.

The original Descriptive Materials issued in February of 1983 and the August 1983 RFP both assumed that small independent contractors would perform the work at wages in the $15 per hour range.

In January of 1984, the sponsors selected were called to a meeting at which they were informed of the prevailing wage law. The effects on sponsor projects will be evaluated in the next section, but for now, the
important point is that MHFA's involvement added another level of "complexity" that was unanticipated.

To understand how the Partnership unfolded over the last two years, it is critical to understand that the financial resources necessary to carry out the Demonstration Program were not in place at the time implementation began. The RFP, issued in August of 1983, noted that "the financial arrangements described here are preliminary ones. The Partnership has discussed them with agencies and institutions whose support is sought, but firm commitments have not yet been obtained".

The original timetable issued with the RFP had projects beginning construction by February-June 1984. All lender reviews and commitments, it was hoped, would be completed by May of 1984. As of April, 1985, however, half (5) of the projects had still not closed.

The Effect on the Sponsors

The problems encountered by the community based sponsors was probably best captured by Ed Burke, President of the Fenway Civic Association, and Board member of the Fenway CDC; "The diver was on the diving board but they hadn't decided where to put the pool". In short, the program was being designed as the sponsors were putting together their individual projects.

We have looked at some of the problems which arose in coordinating the various actors involved in the Partnership, particularly financing sources. This section will examine what the effects of that process were on the community based sponsors.

Site Control

One issue that was nearly universally problematic was maintaining site control. The sponsors were required to submit evidence of site control in
their applications. Approximately 12% of the buildings were under purchase and sale, 44% were under option, 14% were bound through a letter of agreement, and 26% were either in the foreclosure process or the deed was being cleared.\textsuperscript{27}

The original options and Purchase and Sale agreements ran through January of 1984. Upon acceptance into the Partnership, however, most of the sponsors were able to receive further extensions through August. Because the timetable in the RFP had Lender commitments finalized by June of 1984, most felt comfortable with such an arrangement.

When options began expiring around August of 1984, however, panic struck many of the sponsors. Many sponsors were put into an uncomfortable position of having to decide whether to purchase the building prior to commitment of subsidies and mortgage loans. They would then be forced to manage these buildings earlier than anticipated without the resources to bring them up to code.

In the end, many of the sponsors did, in fact, buy their buildings that were privately owned because the owners refused to extend their options month after month. As many sponsors recalled, owners got tired of hearing "just one more month".

This situation, however, was not without complications. Serious internal organizational issues were raised for sponsors. Kathy Wermiak, director of the Fields Corner CDC characterized the dilemma; "There was a real fear that if the Partnership failed to deliver, we'd be stuck and perceived as another slumlord. We didn't want to acquire any of the buildings until things solidified".

In the end, these "organizational" concerns were solved through necessity. Many sponsors had no choice. It was either buy the buildings
or lose them. The latter option was also unacceptable because it too conflicted with the organizational goals of the CDC's -- preserving decent, affordable housing. Many of these buildings would have been lost to further deterioration and eventual abandonment, or conversely, to speculation and drastic rent increases.

The Fenway CDC was forced to buy their only building in July of 1984. The Partnership helped finance this purchase and several others. Tenant rents pay the interest on this loan but there is nothing left over. Sharon Riley, of Roxbury-North Dorchester had a typical story to tell. One of the buildings they were forced to buy in September of 1984 had been rapidly deteriorating and the owner was not doing any repairs. They purchased the building -- just in time for the boiler to need replacing. Quincy Geneva also had a property with a broken boiler and needed a Partnership loan to get through the winter.

For CDC's with City owned buildings, similar problems occurred. Codman Square CDC was preparing a rehabilitation plan for one of two city owned buildings. They were hoping to complete rehabilitation before the winter because they feared the pipes might break if they froze. In the end, the financing was not finalized, the CDC could not afford to rehab the building on their own, and the pipes did break. The result on their overall project has been major. Their closing date has been moved up to May 17, which Bill Jones, director, called "a highly optimistic date". In the meantime, they are reworking their project to exclude this building.

Contractor Problems

Six of the nine sponsors interviewed had significant problems with their contractors. First, five of the sponsors (Allston-Brighton, Codman Square, Fenway, and Quincy Geneva, and Dorchester Bay) were forced to switch the
original contractor within the first few months of the program. There were two reasons for this. First, as mentioned, sponsors were not informed that they would be required to pay prevailing wages until after their projects were selected. This change required changing specs, work write-ups, etc., and often resulted in a contractor change. Second, the Partnership required that the contractors be able to provide performance bonds for 100% of the value of the work to be performed. This too presented some problems. Many did not learn that their contractor was not bondable until early 1984. In the search for a bondable contractor who could also bid near the original contractor, many came up short.

Jim Luckett, of the Dorchester Bay EDC summed up the contractor problem; "The Partnership envisioned that we'd use middle range contractors. They would be big enough to get a 100% performance bond, deal with all the paperwork and regulations, minority hiring, Davis Bacon...but at the same time they were supposed to be small enough to take on the trouble of doing partial rehab with tenants in place, different locations...In the end we found that this 'middle' range contractor doesn't exist."

The experience of many other sponsors confirms this observation. Matt Thall, of the Fenway CDC estimates that the requirements (particulary the bond requirement) eliminates 60% of the contractors who might take on such a job. As of early April, the Fenway CDC was still without a contractor.

For some sponsors, contractors simply backed out. Many of the small contractors found that they couldn't wait month after month for the Partnership to finalize the projects. Many were too small and didn't have enough flexibility to work around the delayed timetable.

Problems with contractors were compounded after December of 1984 because sponsors were then locked into a mortgage amount. They had already
submitted mortgage documents to MHFA using their present "best bid" contractor prices. If they lost their contractor after this date, they were in a double jam. Not only did they have to find a new contractor, but they had to get them to work at or below the level of the previous bid.

The sponsors found two ways around this dilemma. First some altered the amount of rehab to be done -- doing less for the same price. Others tried to save money by circumventing the prevailing wage requirement. At least two CDC's bought their buildings and started some non prevailing-wage work with small contractors (non-bondable) to reduce the amount of work to be done by the Partnership contractor.

The roots of the contractor problem go back as early as December of 1983. Just before Christmas, GBCD informed the sponsors of a provision in Section 167K of the IRS code. This statute allowed sponsors to write off $5,000 in per unit rehab costs over 5 years (rather than 15) if low income tenants (below 80% of the median) inhabited the units. The provision, however, was set to expire on January 1, 1984. GBCD, therefore required the sponsors to have their contractors signed within one week. As more than one sponsor reported, this resulted in "bogus cost estimates created to enhance the syndication proceeds". Sponsors were assured that they would not be locked into these situations and, in fact, they were not. However, the cost estimates were nevertheless used as a guidepost by many sponsors. With construction contracts in hand at reasonable prices, a false sense of security was found. When these contractors left the picture and more realistic cost estimates arrived, many were shocked at the actual expenses.

Changes in Per Unit Costs

As we have seen, the number of different actors involved in the
### BHP MULTI-FAMILY PROGRAM

#### Changes to Projected Per Unit Costs

<table>
<thead>
<tr>
<th>Number of Units</th>
<th>500</th>
<th>500</th>
<th>800</th>
<th>700</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Feb. 83</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Descriptive Materials</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Aug. 83</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Request for Proposals</td>
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<tr>
<td><strong>Jan. 84</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Revised Expanded Budget</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Jan. 85</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing Budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Acquisition and Rehab</td>
<td>$25,000</td>
<td>$26,000</td>
<td>$29,430</td>
<td>$33,221</td>
</tr>
<tr>
<td>2. Construction Loan Interest</td>
<td>1,021</td>
<td>1,244</td>
<td>1,100</td>
<td>2,327</td>
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<tr>
<td>3. Financing Fees</td>
<td>850</td>
<td>950</td>
<td>1,000</td>
<td>6,693</td>
</tr>
<tr>
<td>4. Other Development Costs</td>
<td>2,970</td>
<td>3,650</td>
<td>3,500</td>
<td>5,323</td>
</tr>
<tr>
<td>5. Reserves</td>
<td>3,000</td>
<td>5,000</td>
<td>3,250</td>
<td>5,993</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>$32,841</td>
<td>$36,844</td>
<td>$38,280</td>
<td>$53,557</td>
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</tbody>
</table>

Source: This information was obtained from a BHP memo made available to me by Bob Whittlesey, director.
Partnership financing scheme, involved numerous complications that extended the timetable of the Partnership. A second effect of this complexity was felt in the per unit costs of the sponsors projects. Table 1 shows the Changes in Per Unit Costs to the sponsors projects from February of 1983 through January of 1985. As shown, the total per unit costs skyrocketed -- from $32,841 to $53,557 -- an increase of 64%. Several factors account for such a rise, but most of them I would argue, are a result of the unforeseen complexity that this effort involved. The following section will explain where these increases came from.

Acquisition and rehab increased $8,221. About half of that can be explained by MHFA's participation in the financing scheme. As we have seen, MHFA required that "prevailing wages" be paid. The effect of this change, since labor represents about 50% of the rehab construction budget, was to increase construction costs an average of 15%, or approximately $3,000 per unit. These higher labor costs, in turn caused some changes in the original specifications. This contributed to a further increase of $1,000 per unit. As mentioned, when the sponsors were notified of MHFA's requirement in January, it was back to the drawing board. The cost -- $4,000 per unit.

The remaining increase ($4,000) can be explained, but less systematically. Several reasons seem to exist. First, the extended timetable resulted in extended options payments, some of which were not recoverable against the purchase price. This does not seem to be the major reason, however. The more significant factor was offered by Jim Luckett, of Dorchester Bay; "most of us assumed that the 'better buildings' were going to be cheaper to rehabilitate. We realized later, however, that they too were expensive". Many CDC's has followed a strategy of "cross-subsidization".
To get severely deteriorated buildings into the package and remain within the dollar limits set by the Partnership ($26,000) many tried to combine abandoned buildings with properties needing very little work. As most found out, "very little work" cost more than anticipated. The "paint and touch-up" buildings were both few and far between and had prohibitively high acquisition prices when they could be found. The result was very little cross-subsidization (only around 20% of the Partnership properties are actually abandoned), and higher than expected rehab costs on "better buildings."

The highest increase in costs, and for our purposes the most interesting, is the increase in financing fees. Financing fees saw an astronomical leap. These numbers reflect a lot of the difficulties encountered in coordinating the various financing agencies. Note that fees went from $850 to $6,693 per unit -- an increase of 687 percent. Many of the problems associated with the Partnership effort were not simply timetable problems. They resulted in significant increases in costs which raise some serious questions about the wisdom of such an approach.

How can a 687% increase be accounted for? According to Bob Whittlesey, all but the closing budgets assumed only 3.5% financing fees. In other words, as late as January of 1984, the Partnership felt that they could coordinate the various actors involved without paying astronomical legal fees and other associated "soft" costs. I would argue that most of these expenses were a direct result of the overly-complex "tripartite" agreement between the Banks, FNMA, and MHFA.

Of the $5,693 in financing fees, approximately $1,514 was a result of the bond issue. As Bob Whittlesey, notes one of the very unique things
about the BHP is that they essentially have their own bond issue; "in effect that means that I operate MHFA's system". The Partnership is performing the role that MHFA normally plays, namely distributing mortgage funds across a number of different projects. The result of this arrangement, however, has been very costly. MHFA bond counsel, for example, received over $550,000. MHFA, FNMA, and Bank counsel fees, for the bond issue only -- was $813,000. In addition, the rating agency required capitalized interest of $247,000. This is excess money to assure timely bond payments with a potential lag in mortgage payments.

In my interviews with the non-profits, many of them complained about the astronomical fees, particularly legal, that the financing structure involved. Shelly Hoon, consultant to Quincy-Geneva noted; "legal fees have been astronomical because everyone involved seemed to want a legal opinion on everything that happened". The result for most sponsors, was that one move by any of the three participants in the tripartite financial arrangement would trigger a move by the others to produce a legal opinion.

Bob Whittlesey notes the distinct difference between the Partnership effort and earlier efforts to provide low income housing; "The closings we did years ago were done with myself, my lawyer, the feds, and their lawyer. We did everything in the HUD area office. Now we do the loan closings in private legal offices and there's not a sign of the feds anywhere." The result, notes Bob, has not been easy. "We've got seventeen law firms involved in this deal." This in part, accounts for a significant portion of the 687% increase.

A typical letter of commitment from the Bank of Boston to the CDC's for example, was a one page cover letter describing the amount, term, interest rate, commitment fee, and servicing fee. "Additional provisions", however,
were almost always attached. A typical list of provisions would be ten pages long and include 25 separate points.

Dan Oulette, who coordinated the Bank of Boston's participation in the Partnership notes that bank knew it would be complicated when they entered the deal, but not as complicated as it turned out. The bank has had to deal with close to 100 individuals to package this deal. He notes that their underwriting criteria were stretched considerably and that this always takes time and money.

As mentioned earlier, the Bank of Boston provided a letter of credit to the City of Boston, assuring that they would back the Partnership's promise to return $5.5 million on CDBG money, if necessary. This too proved costly to the Partnership. The letter of credit charge (plus interest on this loan and working capital loans) totals $1,105,000.

Syndication expenses also were high. Placement fees, legal, accounting consulting, management and servicing fees, accounted for $1,656,000 of the total project costs.

The above items account for the 687% increase in financing fees that the Partnership projects had to absorb. The result has been that the Partnership will end up paying approximately 20% for financing fees rather than the anticipated 3.5%. I would argue that such a figure must call into question the wisdom of the tripartite financing arrangement.

The "complexity" of the Partnership's financing arrangement was an ingenious attempt to pool many shallow subsidy mechanisms into one package. Such innovation appears to be unmatched elsewhere in the country. Pat Clancy, in particular, was critical to the success of that
effort, and indeed, his ability to bring the financing sources together, with Edgerly's assistance, was nothing short of brilliant.

The end result, however, should be carefully scrutinized. As we have seen, the effort involved a large number of actors, each with a different interest and agenda. Getting these interests to act in consort, particularly FNMA and the banks, was a difficult task that significantly extended the timetable of the Partnership's demonstration program. The complexity of the coordination effort also resulted in extremely high per unit cost increases, particularly in the area of financing fees. These astronomical (yet unforeseen) fees reveal a great deal about the Partnership's effort to "piggyback" the numerous sources of assistance.

In essence, the piggy-backing of multiple assistance programs geometrically increased the efforts necessary to coordinate the roles between the various actors. As at least one observer has noted, the Partnership financing model "contains a rather hefty surcharge for complexity." X One critic has called the arrangement "the Cadillac model, funding three piece suits". X

Another significant increase was found in "Other Development Costs". Note that these rose from $2,970 to $5,323 per unit -- an increase of 79%. Most of this can be accounted for directly by the extended timeline and the effect that that had on the sponsors. As we have seen, many sponsors were forced to purchase buildings early. For many that resulted in unbudgeted expenses for management and maintenance. Most of these expenses exceeded interim operating income (rents) and had to be added to their development costs. These early management and maintainence expenses added $1,500 per unit (on average).
to each of the sponsors projects. The additional increase ($800 per unit) constitute an increase in professional fees and incidental costs that were not accounted for in initial budgets because they underestimated the amount of work to be done by lawyers, architects, etc.
Conclusion

The retreat of the federal government from the housing assistance sector is only beginning to be felt in areas such as Boston. We should expect the rental housing crisis here to continue despite the efforts of groups such as the Boston Housing Partnership. Without a major shift in federal governmental support for housing assistance the goal of delivering the required number of affordable rental units for the 1980's will not be met.

Nevertheless, the Partnership effort is impressive. Clancy, Edgerly, and Whittlesey, in particular, have been especially noteworthy in providing direction. It is doubtful, for example, if the syndication deal could have sold without Clancy's expertise, and Edgerly's leadership. As of late April, 1985, it appears that the Demonstration program may soon be completed. In spite of severe cost overruns and extended timetables, the Partnership will accomplish their first mission.

The retreat of the federal government from many social programs has been accompanied by a recent upsurge in "public-private partnership" discussions. Some is nothing more than rhetoric, breathing new life into what is after all, not fundamentally a new idea. The federal government has always accomplished its public sector housing goals by utilizing the private sector. The significant shift this time around is that the feds are now out of the picture. Other "public-private" efforts have involved more substantive efforts, such as the Boston Housing Partnership.

Based on the experience of the Boston Housing Partnership, what might we expect from these efforts? What are the lessons to be learned
from the Demonstration program?

First, these efforts are generally incredibly complex because they involve a large number of actors and institutions. To compound matters, when these actors and institutions have different goals and interests, coordination is even more cumbersome. The BHP's first effort has involved five mortgages, the City of Boston, four major Boston Banks, MHFA, FNMA, the State of Massachusetts, CDFC, LISC, FORD, several foundations, limited partners, ten community based housing sponsors, and seventeen law firms. Often coordination within these institutions themselves was difficult. FNMA, for example, found their community development department at odds with other departments. The City's NDEA found that although they supported the program, getting Inspectional Services and Public Facilities to move as one was an extremely difficult task. The very nature of "partnership" efforts often involve this complexity, and as a result, the coordination process is bound to be slow and painful, if it is to succeed at all.

Second, these "public-private" efforts are often pioneering new ground. The result is that these efforts often involve a form of "conditional" planning. The Catch 22 in "conditional" planning occurs when no one institution or individual will agree to act unless the others have already done so. Such planning efforts, however, are extremely time consuming and require protracted negotiations between the players involved.

Third, the difficulties in coordinating these "partnership" efforts are likely to be not simply time consuming, but costly as well. Particularly in development related work, time is money and extended
timetables often result in increased costs. This indeed was the case with the Partnership's Demonstration program, as we have seen. In particular, the Partnership encountered a great deal of difficulty in getting the tripartite mortgage financers to agree on a number of substantive issues. As at least one observer has noted, the Partnership played with a lot of "funny money". In the final analysis, however, they paid an excessive fee for their financing -- 20%. These cost overruns were a direct result of the difficulties encountered in coordinating the efforts of the banks, FNMA, and MHFA. Future "partnership" efforts should be wary of similar problems.
The following pages are missing from the original

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Attachments
### BOSTON HOUSING PARTNERSHIP

**Initial Multi-Family Program**

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OFFICERS

January, 1985

Chairman
William S. Edgerly
Chairman and President
State Street Bank and Trust Co.
225 Franklin Street
Boston, Massachusetts 02101

President
David A. Spina
Executive Vice President & Treasurer
State Street Bank and Trust Co.
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Boston, Massachusetts 02101

Clerk
Charles R. Lightner
Vice President - Property Development
Prudential Insurance Company
Boston, Massachusetts 02199

Treasurer
James S. Sweeney
Vice President
Bank of New England
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Assistant Treasurer
Laura L. Schaefer
Mortgage Loan Officer
Shawmut Bank
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Boston, Massachusetts 02211

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Robert B. Whittlesey
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Carpenter & Company
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Keith G. Willoughby
President
Mutual Bank for Savings
45 Franklin Street
Boston, Massachusetts 02110
1 Allston-Brighton Community Development Corporation
2 Fenway Community Development Corporation
3 Mission Hill Neighborhood Housing Services, Inc.
4 Urban Edge of Greater Boston, Inc.
5 Roxbury/North Dorchester Neighborhood Revitalization Corporation
6 Quincy-Geneva Housing Corporation/ Roxbury Multi-Service Center
7 Dorchester Bay Economic Development Corporation
8 Fields Corner Community Development Corporation
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10 Lena Park Community Development Corporation