

**The Development and Function of an Affordable Housing Production Ecosystem:
Harlem, New York in the Late 1990s and Early 2000s**

By

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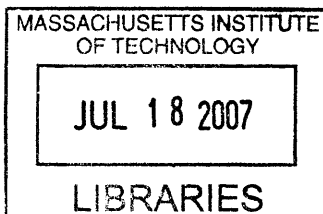
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ROTCH

For

Susan Ponce de Leon

(1954-2006)

and for

Ibo Balton

(1954-2007)

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ABSTRACT

In late 1990s and early 2000s Harlem, an affordable housing production "ecosystem" comprised of elected officials, city planners, civic advocates, builders, and financial institutions at the local, state, and national level supported a reliable, systematic pipeline of new affordable housing construction. The output of this pipeline included Harlem's first midrise affordable housing construction in thirty years in the late 1990s and, by the early 2000s, over 15,000 units of affordable housing construction starts per year.

This thesis seeks to describe the creation and operation of this affordable housing production ecosystem within a framework of "push," "pull," and "safety net" factors influencing the allocation of capital and resources. "Push" factors consisted of the Community Reinvestment Act and Home Mortgage Disclosure Act, the evolution of which led private investment into low-income and minority communities such as Harlem. "Pull" factors included the deeply-experienced, closely-knit network of affordable housing professionals working in Harlem that had the skills and influence to execute projects; and a long-term, comprehensive community development framework, spearheaded by the public sector, that organized affordable housing efforts across the public, non-profit, and private sectors. "Safety net" factors included local subsidies, housing finance innovations, and the emergence of secondary markets, all of which decreased the risk and uncertainty of investment in pioneering Harlem affordable housing projects.

This thesis will also assess the ecosystem in practice by examining key representative projects: Maple Plaza and Maple Court; The Renaissance; and Madison Park, Madison Court, and Madison Plaza. These projects roughly represent an initial stage, fully-formed stage, and further evolved stage of the affordable housing production ecosystem at work.

Looking ahead, this thesis seeks to identify and assess future challenges that the ecosystem must address as the banking industry evolves, local market and policy conditions change, and secondary markets grow larger and more complex. Lastly, this thesis seeks to draw insights from the Harlem experience for affordable housing practitioners and for communities seeking to create their own affordable housing production ecosystems.

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Chapter 1: Introduction

In Harlem at the turn of the 21st century, local elected officials, city planners, civic advocates, national legislators, local and regional builders, and national financial institutions each played an important part in a reliable and efficient affordable housing production system. Having evolved to take the place of the federal delivery system dismantled decades earlier, this new system would rely on local knowledge, civic engagement, and private sector investment, with Federal support in the form of a strong regulatory framework to encourage affordable housing development and the sponsorship of strong secondary markets to facilitate housing investment. Built over multiple decades, this system relied on advances in fields as diverse as regulatory legislation, urban planning policy, and financial insurance. The individuals and organizations that comprised the system acquired new skills and forged new alliances. They built up expertise, trust, and channels of communication project by project. In the mid-1990s, Harlem would see construction of the first new affordable apartment buildings within its borders in almost thirty years. By 2007, over 30,000 units of new affordable housing would be in development or under construction across New York City.¹

The annual Community District Needs report compiled by each New York City Community Board vividly illustrates the changes that took place between 1995 and 2005, roughly the period from when this new ecosystem generated its first projects to the period of its greatest productivity. In Community Board 11 – East Harlem – 24.1% of the community's total land area was vacant in 1995, totaling 920 lots. The 1995 report notes, "this community is facing an uncertain future unless there is a coordinated effort on the part of government to

¹ NYC Department of Housing Preservation and Development, *Mayor Bloomberg's New Housing Plan* (New York: NYCHPD, 2007).

address the critical housing shortage." The report also requests an expansion of the "Narcotic Eviction Program" and notes the blight caused by abandoned homes, which not only constitute "an untapped housing resource" but also attract "squatters, illegal dumping, and vermin."² By 2005, however, vacant lots had dropped to 4% in East Harlem, a decrease of over 83%. In the face of substantial new construction both of affordable and higher priced homes, a new problem emerged: gentrification, "an urban phenomenon affecting the entire City, but especially working class neighborhoods such as District 11."³ Gone from the 2005 report is the discussion of vacant buildings; in its place, numerous calls for "re-evaluating" and "re-defining" programs that had, over the intervening decade, constructed or began development of over 1,100 units of newly-constructed, large-scale housing alone.⁴

Across Harlem, and indeed across many low-income and minority communities in New York City, similar stories abound. How did housing development occur so quickly and so successfully that from 1994 to 2004, housing values increased in East Harlem by over 600%?⁵ In various periods over the past three decades, housing booms and busts came and went, but communities like East Harlem continued on a track of abandonment and general decline. However, the 1990s were different. A set of policies and procedures – an entire "ecosystem" across numerous disciplines – had been developed over the previous decades that would allow Harlem and its advocates to take advantage of this most recent real estate boom to achieve affordable housing goals.

² NYC Department of City Planning, *Community District Needs – Manhattan, Fiscal Year 1995* (New York: NYC Department of City Planning, 1994), 246-7.

³ NYC Department of City Planning, *Community District Needs – Manhattan, Fiscal Year 2005* (New York: NYC Department of City Planning, 2004), 271.

⁴ NYC Department of Housing Preservation and Development, *Multifamily New Construction Project Information*, (internal departmental document, 2007).

⁵ Been, Vicki et al., *State of New York City's Housing & Neighborhoods 2005* (New York: NYU Furman Center for Real Estate and Urban Policy, 2006), 82.

1.1 THESIS PURPOSE AND GOALS

The creation of affordable housing is an inherently diffuse practice, a mix of universal and context-specific factors involving many actors in many roles. At different stages, different parties are gatekeepers on the "critical path." For this reason, the temptation for individual practitioners to feel their role to be at the "center" and other roles to be at the "periphery" is great; similarly, the inclination to feel one's role and skill set to be "important" and those of others to be "marginal" is also strong. This silo mentality is a key contributor – if not *the* key contributor – to the failures that universally populate urban planning lore: the innovative development planned but never built; the demonstration pilot impossible to replicate at scale; the idealistic proposal destined for political defeat; or perhaps worst, the implemented policy that brings more harm than good.

This thesis seeks to assemble a framework to understand the creation and operation of the Harlem affordable housing ecosystem of the late-1990s and early-2000s, attempting to understand key mechanisms and draw lessons applicable to other communities and affordable housing practitioners. In describing the Harlem affordable housing ecosystem, this thesis focuses specifically on the means by which various actors were able to directly and indirectly influence financial risk and return over time. For those policymakers, community advocates, planners, and "non-finance" types for whom the financial aspects of affordable housing are less than clear, the lens of finance is particularly useful in placing a different significance on the regulatory actions, political maneuvers, planning policies, and civic initiatives that are the core of their work. This "alternative view" also highlights the significance of seemingly trivial financial minutia – e.g. credit enhancement – that, from a risk-return perspective, are critical pieces of a project's or program's foundation.

Indeed, financial risk and return is a primary consideration of many large-scale, national and international organizations whose interventions and capital are essential to affordable housing development and were critical in establishing the Harlem affordable housing ecosystem. Yet for many of these organizations – e.g., large banks, financial regulators – affordable housing is only tangential to their core work. How were housing advocates able to influence these organizations' behavior? How did advocates leverage chance and opportunity to turn non-housing related policies and legislation into critical pieces of an affordable housing ecosystem? With these pieces in place, how did housing advocates execute affordable housing projects in a large-scale, systematic, and reliable way?

A more nuanced understanding of financial context allows affordable housing professionals who are not primarily in the business of finance to more successfully leverage their own strengths to attract investment – that is, to successfully leverage their political and social capital to attract financial capital. In the way that financial capital is often cynically said to "buy" political and social influence, so too can political and social influence "buy" financial capital. The ability to recognize and exploit the leveraging of political, social, and financial capital for one another has been a key driver of the "second Harlem renaissance" and can fuel successful affordable housing development systems in other places.

For affordable housing practitioners across fields, this thesis offers an overview of a set of "big picture" interactions that are often obscured by the on-the-job demand for specific domain expertise at the expense of a broader contextual understanding. Which roles and which interactions initiated the rapid innovation in Harlem in the late 1990s and early 2000s? In what timeframe was this ecosystem and its underlying components developed? Can systems such as Harlem's be carefully planned or must strategies develop based on conditions and opportunities not known in advance?

At a professional level, what lessons can legislators and policymakers draw from the development of the affordable housing production ecosystem? How can financial firms and their staff organize their efforts to facilitate housing production? What can young practitioners learn from the successful careers of the key actors in the Harlem experience?

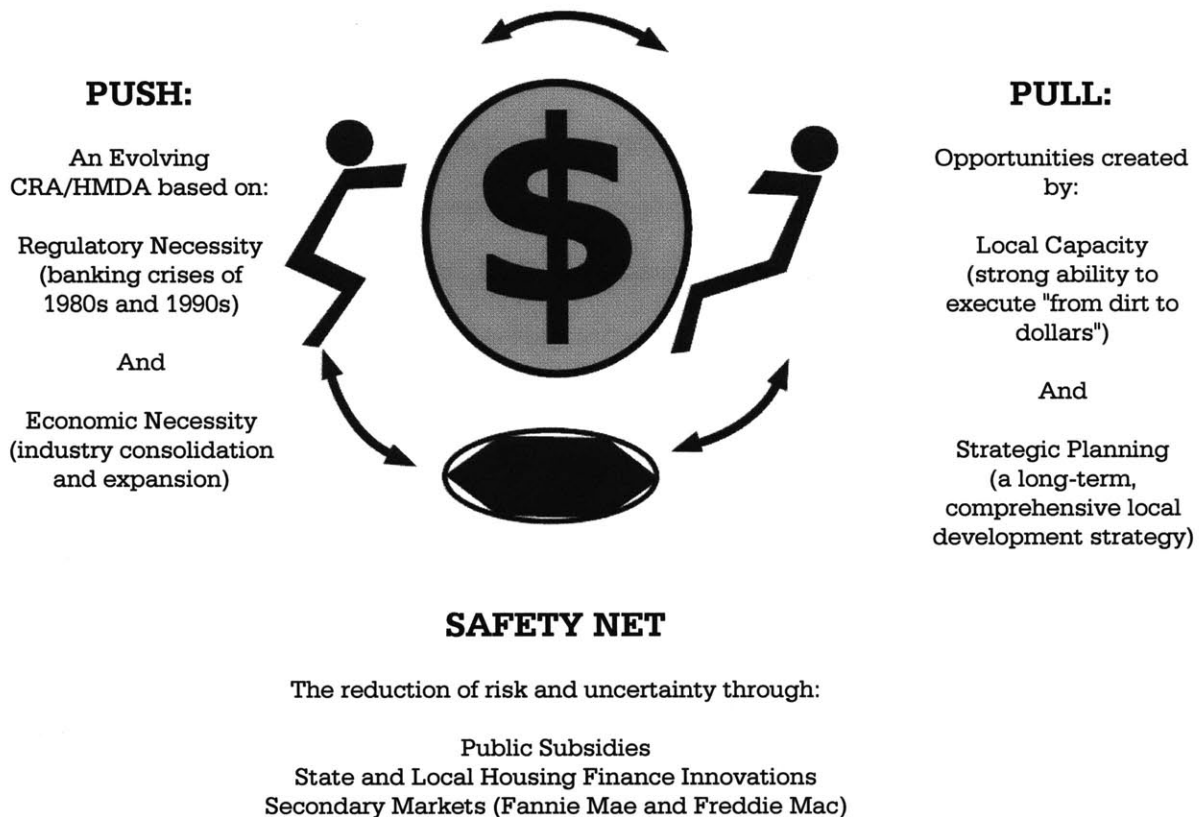
In thinking about the broader applicability of the Harlem experience, the uniqueness of Harlem and New York City in the late 1990s and early 2000s cannot be ignored. The city's size, strong economy, and preeminence in financial services give it unique advantages in drawing capital and labor. However, many aspects of the Harlem affordable housing production ecosystem can be replicated in other places, at other times. Which aspects of the Harlem experience can serve as the foundation for other communities' efforts to create an affordable housing production ecosystem of their own?

Importantly, Harlem's unique affordable housing production ecosystem was not without its tradeoffs and controversies. Prioritizing feasibility and production sometimes meant reducing affordability or decreasing unit count. Tailoring strategies to political realities in the Reagan era and its aftermath produced programs with a strong inclination toward locally-driven, market-based solutions that, unlike federal programs of decades past, did not reach the poorest of the poor, did not make provisions for permanent affordability, and were not intended to confront affordable housing issues beyond the New York City limits. The path forged in Harlem explicitly favored middle-class and working-class households as much or more than low-income households, provoking questions about whether Harlem's affordable housing production system ultimately utilized scarce resources in the most equitable or high-impact manner. While this thesis does not primarily focus on analyzing these tradeoffs, there are numerous lessons for affordable housing practitioners in the paths chosen in Harlem and the context in which those choices were made.

1.2 THESIS STRUCTURE

The robust affordable housing production ecosystem developed in Harlem in the mid-1990s was the product of decades of work, in numerous related and unrelated initiatives, by a diverse range of actors – national to local, public and private, mission-driven and profit-driven. The seeds of the ecosystem were sown in the early 1980s and took the better part of two decades to harvest. From various starting points, various elements evolved into key mechanisms within three categories: necessity or "push" factors; opportunity or "pull" factors; and security or "safety net" factors.

Figure 1.1: The Affordable Housing Ecosystem



This thesis will describe each of the affordable housing ecosystem's three components – push, pull, and safety net factors – in turn. First, Chapter 2 will detail the "push" factors that drove private capital – a critical factor in the new affordable housing ecosystem – into low-income, minority communities such as Harlem. The complexity and uncertainties of investing in such communities would seem to offer much more risk for much less reward than investment opportunities available to banks in other markets in other locations. So why would private lenders invest? In short, two factors pushed them: first, government regulations such as the Community Reinvestment Act and the Home Mortgage Disclosure Act compelled institutions to undertake business in the communities in which they had a presence. Second, changes to the structure of the financial services industry – in particular, the consolidation and later diversification of banks into securities and other services – compelled banks to seek a high CRA rating in order to ensure regulatory approval for these newly legalized activities.

Next, Chapter 3 will discuss the "pull" factors that led private capital to invest in Harlem affordable housing projects specifically, as opposed to various other projects and programs available to fulfill banks' CRA mandate. Two factors contributed to the "pull" of Harlem: first, a focused, long-term, public-sector redevelopment strategy was created and implemented over almost two decades. Beginning with Mayor Ed Koch's Ten Year Plan beginning in the mid-1990s and extending to the Building Blocks program of Deborah Wright and the Giuliani administration, the City of New York devoted substantial resources across disciplines to lay the groundwork for safe, effective community building. Second, because of this long-term commitment, New York had by the mid-1990s a broad and deep network of private, non-profit, and public sector professionals experienced in successful affordable housing finance, development, and construction. This knowledgeable and connected group

offered a mature investment strategy for affordable housing and the tested professionals to implement it.

However, despite strong regulatory pressure and a solid investment opportunity, banks were initially reluctant to undertake these investments. What led them to “seal the deal”? Chapter 4 explores the set of initiatives that offered a “safety net” to mitigate project execution risk and banks' overall financial exposure. This safety net was composed of three parts. First, local subsidies provided the financial cushion to protect private lenders' interests in early projects. This subsidy came in two forms: 1) City-owned land that was effectively given away for free and 2) cash subsidies paid per housing unit. With projects successfully completed and in operation, the need for subsidies declined as profit opportunities were confirmed and competition for affordable housing projects increased. A second component of the safety net was a set of financial innovations by state and local Housing Finance Agencies (HFAs) such as the NYC Housing Development Corporation. In the 1990s, these HFAs combined their affordable housing underwriting expertise and success with their tax-free and taxable bonding capacity to create new below-market rate loan products. In addition to reducing private lender risk by reducing project loan amounts, these new products also reduced borrowing costs for the projects themselves while maintaining a profit-generating or self-sustaining revenue model for the HFAs. Third, the emergence of the secondary mortgage market, and its two major players, Fannie Mae and Freddie Mac, provided a previously unavailable source of liquidity for banks seeking to invest in affordable housing. Fannie and Freddie decreased banks' risk exposure by “buying” their loans, allowing them to recoup their “profit” almost immediately rather than over the course of the mortgage term and releasing originating banks from the risks of the project.

Chapter 5 explores how these factors interacted in the context of Harlem to produce a new crop of affordable housing the scale of which had not been seen in decades. First, from

1995-1997, Maple Court and Maple Plaza, 135- and 155-unit limited equity cooperatives that were spearheaded by North General Hospital, pioneered the development of large-scale projects in Harlem. Following "the Maples," The Renaissance, a 241-unit mixed-use limited equity cooperative, was built from 1999-2001, signaling a new willingness by "mainstream" developers and lenders to contribute to Harlem affordable housing. Following The Renaissance, from 2000 to 2003, a set of three projects, Madison Park, Madison Court, and Madison Plaza (the "Madisons"), represented a new generation of high-quality, mixed-income, mixed-use housing that was developed under strong competitive pressures and with minimal subsidy.

Chapter 6 explores "what's next": with a new globalizing and diversifying financial services industry threatening the efficacy of CRA; a decreasing inventory of City-owned land and gentrification replacing abandonment across New York City; and Fannie and Freddie holding increasingly mammoth and complex portfolios, the affordable housing ecosystem developed for Harlem in the early-2000s will need to continue to evolve not only to serve Harlem, but also to extend its reach to other communities. A number of different "push," "pull," and "safety net" measures are being developed or contemplated to meet these new challenges, including changes to the CRA, a New Housing Marketplace strategy by the Bloomberg administration, and a new regulatory framework for Fannie Mae and Freddie Mac that would include CRA-like features.

Chapter 7 provides an overview of the lessons of the Harlem experience. What can affordable housing advocates learn from the affordable housing production in Harlem in the late 1990s and early 2000s? What specific lessons can be drawn for affordable housing practitioners? Can the Harlem experience be replicated in other places?

In summary, this thesis will seek to describe the framework of necessity, opportunity, and security that influenced private lenders and other key actors in the creation of a new

housing ecosystem for early-2000s Harlem. This thesis will also assess the ecosystem in practice and seek to draw insights for future challenges in Harlem and for other communities seeking to create their own affordable housing production ecosystems.

1.3 THESIS METHODOLOGY

This thesis attempts to define, describe, and evaluate the affordable housing "ecosystem" described above using interviews with key practitioners, including public-sector and private-sector actors; longitudinal quantitative and statistical data compiled by various government agencies, university researchers, and market analysts; annual reports of various organizations, offering "snapshots" of organizational strategy over time; media reports offering a chronology of events; and the texts of key pieces of legislation and regulation. From these various sources, this thesis seeks to stitch together a holistic view of key developments and turning points, reaching beyond basic facts and revealing the motivations of key actors and the political, social, and economic context influencing them.

Harlem was chosen as a case study because of the scope and scale of its "second renaissance." Because of Harlem's location in New York – the nation's largest metropolitan area with the nation's largest concentration of bank headquarters – and because of the availability of data regarding the circumstances and chronology of its recent affordable housing boom – due to strong press, advocacy, municipal recordkeeping, and scholarly research interest – Harlem offered a rich opportunity to explore the overlapping influences of multiple actors on each other and on the broader cause of affordable housing over time. Harlem as a neighborhood offered what only a select handful of municipalities did: a

substantial body of systematically completed projects rather than merely a trail of broken promises and aborted plans (of which there were also many).

Harlem's affordable housing construction was in part driven by idiosyncratic factors not broadly applicable elsewhere – the unique concentrations of population, jobs, financial institutions, developers, and influential civic leaders; the long tenure and multifaceted experience of key actors; and the gargantuan size of the New York economy, among other factors. However, other factors can be customized to fit the needs of other places in other times: for example, strong political, social, and economic networks; comprehensive planning policies; creative use of federal policies and national financial intermediaries; and the "alternative perspective" through the lens of financial risk and return that can reveal unexpected opportunities and draw financial and other resources to the creation of affordable housing.

Chapter 2: Push Factors – The Evolution of CRA and HMDA

As evidenced by the extensive "redlining" and other discriminatory practices prevalent through the first three-quarters of the 20th century, private sector capital providers offered scant indication that their businesses would extend into low-income and minority markets. In this context, political action was required to promote equity in the provision of financial services. This action came in the form of the Home Mortgage Disclosure Act (HMDA), created in 1975, and the Community Reinvestment Act (CRA), created in 1977.

An initially toothless provision that had little impact on the practices of lenders, CRA/HMDA grew and shifted over time to become a key factor affecting the core business strategies of the nation's – and the world's – major banks. How did this happen? As political and economic conditions changed over time, modifications to CRA would interact with banking industry trends to produce enormous changes in the participation of private-market lenders in underserved communities. CRA/HMDA nudged and prodded financial institutions to a position where, by the late 1990s, low-income, minority communities such as Harlem would become logical and reasonable targets for investment.

As shown in the table below, CRA/HMDA's winding path from obscure regulation to critical driver of urban investment demonstrates the complexity of interactions not only between government, community groups, and the private sector, but also between macroeconomic circumstances, unintended consequences, and individual actions. At various points from 1977 to the present, industry crises, investigative journalism, and even the spread of the internet ushered in key changes to CRA/HMDA that would ultimately result in greater service to low-income, minority communities.

TABLE 2.1: Four Phases in the Evolution of CRA/HMDA

GOVERNMENT	COMMUNITY	BANKING INDUSTRY	END RESULT
I. Obscurity to Reform			
CRA/HMDA created; ERTA and TRA86 alter markets	Community awareness minimal	Industry crisis	CRA reform
II. Reform to Recognition			
FIRREA toughens CRA/HMDA	Community advocacy begins	Industry stabilization	CRA recognition
III. Recognition to Compliance			
A tougher CRA/HMDA leads to regulatory denials and litigation	Community advocacy expands	Industry consolidation	CRA compliance
IV. Compliance to Innovation			
New CRA/HMDA metrics for large and small banks	Community partnerships begin	Industry expansion	CRA innovation

2.1 OBSCURITY TO REFORM

The Community Reinvestment Act and Home Mortgage Disclosure Act

The Community Reinvestment Act was created to “encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.”¹ Included in Title VIII of the Housing and Community Development Act of 1977, the CRA directed the four financial regulatory agencies of the period, the Federal Reserve Bank, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank (later replaced by the Office of Thrift Supervision), to assess the

¹ Federal Financial Institutions Examinations Council, “Community Reinvestment Act Background and Purpose,” FFIEC, <http://www.ffiec.gov/cra/history.htm> (accessed December 1, 2006).

"record of meeting credit needs of [the] entire community, including low- and moderate-income neighborhoods" of each financial institution petitioning for approval of branches, federal charters, deposit insurance, or mergers.²

The CRA initially assessed institutions along five metrics:

1. Ascertainment of community credit needs
2. Marketing and types of credit offered and extended
3. Geographic distribution of opening and closing of bank offices
4. Discrimination and other illegal credit practices
5. Community development activities

Two years before CRA, the Home Mortgage Disclosure Act (HMDA) was passed into law by Congress in 1975 and implemented by the Federal Reserve Board (FRB) through its "Regulation C." The HMDA mandated the public release of the lending data by FRB-regulated financial institutions in order to:

1. Help regulators determine the extent to which lending institutions are serving the housing needs of their communities
2. Help regulators target public-sector investments to attract private investment to underserved areas
3. Identify discrimination and bias in lending practices³

² Belsky, Eric, Matthew Lambert, and Alexander von Hoffman, *Insights into the Practice of Community Reinvestment Act Lending: A Synthesis of CRA Discussion Groups* (Cambridge, MA: Harvard Joint Center for Housing Studies, 2000), 6.

³ Federal Financial Institutions Examinations Council, "Home Mortgage Disclosure Act Background and Purpose," FFIEC, <http://www.ffiec.gov/hmda/history.htm> (accessed December 1, 2006).

During the first decade of the CRA/HMDA, little was achieved in improving the performance of the nation's financial institutions in low-income communities. With few activities that would require regulatory approval (and thus would require CRA evaluation) and with almost no public visibility or familiarity with HMDA statistical data (and thus little public accountability), lenders had little incentive to devote resources to CRA compliance or, more broadly, improve services for low-income communities.

Tax Law Changes and the Savings and Loan Crisis

In the wake of the hyperinflationary environment of the late 1970s and early 1980s, the Reagan administration passed the Economic Recovery Tax Act (ERTA) of 1981, altering after-tax economics such that real estate became a substantially higher-returning asset class relative to other investments such as stocks and bonds. Through a new shortening of depreciation terms and an accelerated methodology for calculating depreciation, real estate investors were able to create "tax losses" from real estate investments that would effectively lower their tax burden and increase their after-tax earnings.

While tax loss-driven real estate investments pre-dated the Reagan era, ERTA sparked a substantial increase in real estate investment, which grew from less than \$100 billion in non-residential construction to over \$125 billion – an over 25% increase – from 1982 to 1985.⁴ During this period, supply consistently exceeded demand for commercial and industrial space, as "tax shelter" properties flooded markets across the country.

In 1986, however, a new tax bill, the Tax Reform Act of 1986 (TRA86), fundamentally altered the investment landscape. TRA86 repealed the accelerated depreciation allowed by ERTA and, perhaps more importantly, outlawed the use of "passive losses" from real estate to

⁴ Federal Deposit Insurance Corporation, *History of the 1980s, Volume I: An Examination of the Banking Crises of the 1980s and Early 1990s* (Washington, DC: Federal Deposit Insurance Corporation, 1997), 142.

offset other income. In effect, TRA86 had made "tax shelter" real estate extinct. With the market already flooded with speculative commercial and industrial real estate, and with investor demand for such properties suddenly nearly non-existent, the real estate market plunged precipitously. Where \$16 billion in new real estate limited partnerships had been formed in 1985, by 1989, that number had declined over 90% to only \$1.5 billion.⁵

Caught in the middle of this declining market were the savings and loan institutions (S&Ls) that funded property construction – the same S&Ls that were regulated by, among other measures, CRA. While many S&Ls were in some sense "innocent bystanders," a significant number had participated in high-risk, speculative, and sometimes illegal lending and investment practices that contributed to the real estate boom and the subsequent bust. From 1980 to 1994, 1,617 federally-insured banks were closed or received federal assistance, comprising 9.14% of all banks existing in 1979 plus all new banks chartered in the subsequent fifteen years. As a comparison, in the previous fifteen years (1965-1979), only 0.3% of banks failed or required federal assistance.⁶ In the end, taxpayers shouldered an estimated burden of over \$130 billion as the Federal government paid out depositors' insurance claims and liquidated the S&Ls defaulted real estate holdings.⁷

2.2 REFORM TO RECOGNITION

Government Responds to the S&L Crisis: FIRREA

In the wake of the S&L debacle, Congress tightened regulations governing banks across a wide array of measures, including critical adjustments to CRA/HMDA that allowed

⁵ Ibid., 141.

⁶ Ibid., 15.

⁷ Ibid., 39.

community advocates to easily obtain and analyze community lending data and to publicize their findings for maximum impact. These reforms comprised the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, which sought to more judiciously regulate and monitor the thrift industry's practices, particularly for "acquisition, development, and construction financing [of real estate]," so as to prevent a recurrence of the 1980s crisis.⁸ Senator William Proxmire of Wisconsin, the original author of CRA, was a particularly dogged advocate for toughening CRA and HMDA, holding more than a half-dozen hearings on the topic in 1988-1989. Through his and others' efforts, key provisions were included in FIRREA that increased the impact of CRA and HMDA.⁹

For CRA, FIRREA mandated public disclosure of financial institutions' CRA ratings and converted previously numerical CRA scores into a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance. As such, regulators were required for the first time to produce detailed descriptive reports supporting their ratings, and these reports would be made available for public viewing.¹⁰

For HMDA to comply with FIRREA mandates, the Federal Reserve Board revised Regulation C to 1) expand HMDA to cover mortgage lenders not affiliated with depository institutions or holding companies; 2) require reporting for applications as well as for originated and purchased mortgages and home improvement loans; and 3) require disclosure of the race, sex, and income of applicants and borrowers.¹¹

With these legal changes, CRA/HMDA became more detailed and more understandable to the public. Community lending data were no longer an opaque set of

⁸ Colton, Kent, *Housing Finance in the United States: The Transformation of the U.S. Housing Finance System* (Cambridge, MA: Harvard Joint Center for Housing Studies, 2002), 14.

⁹ Apgar, William and Mark Duda, "The Twenty-fifth Anniversary of the Community Reinvestment Act: Past Accomplishments and Future Regulatory Challenges," *Federal Reserve Bank of New York Economic Policy Review* 9, no. 2 (2003): 172.

¹⁰ *Ibid.*, 173.

¹¹ Federal Financial Institutions Examinations Council, "Home Mortgage Disclosure Act Background and Purpose."

numerical indicators and statistics; now, they were data that could more readily tell a story with respect to banks' criteria for lending and their relationship with communities – particularly communities of color.

Community Advocates Respond to Changes

Following the FIRREA changes, CRA and HMDA data became available on computer and easily parsed by advocates and academics – indeed, with the expansion of the internet over the next decade, detailed information on the practices of specific institutions in specific communities would become widely distributed and easily evaluated. According to a panel of lenders convened by the Harvard Joint Center for Housing Studies, the FIRREA-induced changes "placed potentially embarrassing information in the hands of community advocates," which advocates and media could "use to highlight unfair, discriminatory lending practices."¹² The emergence of this new "headline risk" persuaded previously disinterested lending institutions into focusing more attention and resources on CRA compliance.

In particular, the newly-mandated race data disclosures played a pivotal role in changing lender behavior. By linking lending disparities to race as well as (or rather than) income, community groups and investigative reporters were able to harness the power of one of the country's most galvanizing issues to improve access to capital for low-income communities of color. In 1988, Bill Dedman of the *Atlanta Journal-Constitution* published a series of articles under the collective title "The Color of Money" detailing unfair lending practices in the Atlanta area.¹³ This series would receive national attention, spawning

¹² Belsky, et al., 9.

¹³ See Dedman, Bill, "The Color of Money", series in *Atlanta Journal-Constitution*, May 1-4, 1998.

numerous similar articles in other regions of the country and eventually earning a Pulitzer Prize for Investigative Reporting in 1989¹⁴.

Industry Stability: New Players and New Rules

As the 1980s came to a close, the banking industry began to stabilize and consolidate. Following the activities of the Resolution Trust Corporation, set up by FIRREA to liquidate or assign the assets of failed S&Ls, and private merger activity, the number of banks decreased from 14,660 in 1986 to fewer than 12,000 by 1992. Over the same period, industry assets grew by \$500 billion and the number of poorly-capitalized banks – holding less than 6% of assets – declined from 16% to 5%.¹⁵ While banks regained their footing, so too did community activists, who gained greater access to a powerful tool with which to persuade banks to alter their behavior: easily-parsed CRA statistics including not only income, but also race. This data would also empower Federal regulators to undertake new punitive and corrective actions against institutions that continued to underserve low- and moderate-income communities.

2.3 RECOGNITION TO COMPLIANCE

Government Gets Serious: Regulatory Actions

At the end of the 1980s, regulators began to toughen their stance on CRA compliance. Two cases particularly demonstrated that CRA had "teeth." First, in 1989, the Board of Governors of the Federal Reserve Bank denied Continental Bank Corporation's application to

¹⁴ "The Pulitzer Prize Winners 1989," The Pulitzer Prizes, www.pulitzer.org (accessed April 10, 2007).

¹⁵ Congressional Budget Office, *The Changing Business of Banking: A Study of Failed Banks from 1987 to 1992* (Washington, DC: Congressional Budget Office, 1994), 39.

acquire Grand Canyon Bank of Scottsdale, Arizona specifically on CRA grounds, the first time that a bank acquisition had been denied for CRA noncompliance. The FRB found that "in light of inaccurate filings and a lack of significant efforts to ascertain the credit needs of its community or advertise its products... Continental Bank's commitments to improve its CRA performance did not absolve it for a weak CRA record." In addition, the FRB released a policy statement outlining its newly aggressive stance on CRA with respect to bank merger applications. This statement included a checklist of twelve "standard assessment factors" for regulators to consider as well as an explicit focus on public hearings and community input.¹⁶

Second, also in 1989, the Justice Department brought suit against Decatur Federal Savings and Loan Association of Atlanta for violating fair lending laws by excluding African-Americans from its targeted market areas while failing to advertise its products in African-American communities.¹⁷ The lawsuit took three years to adjudicate and concluded with a consent decree in 1992 that awarded \$1 million in damages and required Decatur to develop and market new products to expand lending to minority borrowers and communities.¹⁸

While these two cases served as the "bombshells" that would shock the lending industry into CRA compliance, they were but the first of a number of CRA-related lawsuits and investigations that regulators pursued. Following the Decatur case, the Justice Department sued Shawmut Mortgage Company of Boston in 1993 and Chevy Chase Federal Savings Bank of Washington, D.C. in 1994 on similar fair-lending grounds, and was similarly successful in both cases¹⁹. The Shawmut lawsuit was noteworthy because it followed a 1992 Federal Reserve Bank of Boston investigation of the bank for CRA non-compliance, part of a broader effort by the FRB to highlight CRA compliance that included the issuance of the groundbreaking and influential report, *Mortgage Lending in Boston: Interpreting HMDA Data*.

¹⁶ Apgar and Duda 172-3.

¹⁷ Ibid.

¹⁸ Belsky, et al., 12.

¹⁹ Apgar and Duda, 173.

Taken together, these actions served notice to banks that the Federal government was committed to enforcing CRA compliance.

Looking back on the time, bankers noted that "what got everyone's attention was the race issue and not wanting to be associated with racial discrimination," and that "lenders care[d] what the *Wall Street Journal* [wrote] about [their] lending institution... it's a big deal." One Atlanta lending officer noted that "fair lending [litigation] terrified lenders."²⁰ The increased attention from both community advocates (including investigative journalists) and banking regulators increased lenders' awareness and attention to CRA. Changes in the banking industry, however, would make CRA compliance a critical imperative for many institutions seeking to secure a place in the new banking landscape.

A New Competitive Landscape: IBBEA and Market Consolidation

Those banks that survived to see the recovery of the real estate market and broader economy in the aftermath of the S&L crisis were able to achieve record profits by 1992-1993, when the industry's return on equity exceeded 15% and its average return on assets reached the highest level since the 1930s.²¹

With the industry having regained its strength, the Riegel-Neal Interstate Banking and Branch Efficiency Act (IBBEA) of 1994 inaugurated a new era of intensive bank consolidation. IBBEA removed geographic and business limits on lending institutions instituted as far back as the New Deal, allowing banks to merge with or acquire other banks across state lines for the first time. In doing so, banks were freer to pursue geographic diversity, broader director representation, and economies of scale. Following IBBEA, over 3,500 bank mergers were undertaken between 1994 and 2003, involving \$3.1 trillion in assets

²⁰ Belsky, et al., 10-11.

²¹ Congressional Budget Office, 37.

and over 47,000 bank branches. By 2003, only about 8,000 banking institutions existed in the country – about 55% of the 14,660 banks in existence in 1986 – and the ten largest banks held 41% of the entire industry's deposits.²²

By the mid-1990s, IBBEA made local, savings-and-loan thrift banking an increasingly uncompetitive business model. Through consolidation, banks could achieve three key advantages: first, they could diversify their deposit and lending bases across regions, allowing greater resilience to regional economic downturns; second, larger and more geographically-diverse institutions could field "stronger teams" of directors and managers, those with more strategic or functional expertise and influence among peer institutions and regulators; and third, scale advantages accrued to banks that were "Too Big To Fail," i.e. possessing a level of assets substantial and far-reaching enough relative to the U.S. banking system that Federal assistance (including a bailout, if necessary) would be virtually guaranteed in the case of another banking crisis.²³ However, to undertake mergers and acquisitions toward these goals, banks required regulatory approval – and regulatory approval required strong CRA performance.

In addition to the threat of regulatory denial or litigation, banks worried that community groups would adopt a strategy of blocking potential mergers in order to attract publicity and win concessions. With media attention on modern-day racial "redlining," senior bank executives sought not only to comply with CRA, but to undertake proactive measures to demonstrate community support. According to lending offices and regulators active at the time, banks began to staff newly-formed CRA divisions and began to build infrastructure for CRA lending. The available HMDA data was also used by lenders themselves to set lending

²² Pilloff, Steven, *Bank Merger Activity in the United States 1994-2003* (Washington, DC: Board of Governors of the Federal Reserve System, 2004), 3-6.

²³ Kaufman, George and Steven Seelig, *Post Resolution Treatment of Depositors at Failed Banks: Implications for the Severity of Banking Crises, Systemic Risk, and Too-Big-To-Fail* (Chicago: Federal Reserve Bank of Chicago, 2000), 1-4.

targets, track the volume and locations of lending, and develop corporate-wide strategy. As one lender noted, an "Outstanding" CRA rating was the one sure means to avoid delays and costly conditions in pursuing bank mergers and acquisitions.²⁴

2.4 COMPLIANCE TO INNOVATION

New Regulations for a New Era

With rapid consolidation in banking, the industry increasingly became bifurcated, with a tier of national/regional major banks and a tier of "legacy" local thrifts. Recognizing this shift, legislators revised CRA/HMDA in 1995 to differentiate review processes for banks based on size, creating separate review processes for "large retail," "small retail," and "wholesale/limited-purpose institutions."²⁵ Large banks were now measured in three areas: "lending," "investment," and "service." "Lending" consisted of the mortgage originations initially tracked by CRA. However, in the "investment" and "service" areas, new goals were set. For the "investment" category, "small business" and "community development" were enumerated as specific new areas of focus. In the "service" category, "innovation and access to products" became key criteria.²⁶

These new regulations implicitly recognized the economies of scale not only in standard deposit-taking and lending activities, but also for more sophisticated CRA-related financial services. Newly consolidated large-scale banks had more experienced professionals in more markets capable of sharing expertise and distributing risk. Indeed, large banks held key advantages in their ability to carry out community development and

²⁴ Belsky, et al.

²⁵ Apgar and Duda, 174.

²⁶ Belsky, et al., 14.

small-business lending and to facilitate innovation and access to services. Namely, large banks had the capacity and capital to originate large volumes of new business, support new loans "on balance sheet," and subsidize "concessionary terms" on various products targeted to low- and moderate-income communities.²⁷ For these reasons, large banks would now face a more detailed CRA review and would be required to undertake more activity in low- and moderate-income communities in order to earn a high rating.

Banks See Profit; Community Groups See Action

As a result of these changes – particularly the new "innovation" criterion – a class of "community development lenders" was born. Indeed, a New York loan officer noted in 2000 that, "Today when you are talking about CRA lending, you are talking about community development lending... the focus is on complex, innovative, and competitive business."²⁸

National and regional banks began to offer large financial programs targeted at a variety of projects in partnership with community groups, Community Development Finance Institutions (CDFIs), and public sector partners. CDFIs and community intermediaries developed specific expertise in successfully brokering complex, public-private development deals. Community groups developed systems to deploy their political capital alongside banks' financial capital to successfully implement new projects. In some instances, consortia of banks pooled capital (and thus distributed risk) to fund new programs and projects.²⁹

Ultimately, the CRA changes resulted in "hundreds of agreements" for community groups, which shifted "from bullhorns to data analysis." One community activist noted that, "At first, in order to get attention, we had to press the banks... today, the banks come to us." As community groups became more engaged with lenders, their partnerships demonstrated

²⁷ Ibid., 22.

²⁸ Ibid., 17.

²⁹ Ibid., 20-21.

a level of profitability and capable risk management that made them attractive lines of businesses for banks. Indeed, bankers noted that "community groups have taught bankers a whole new way of business" and that "[there is a] new mentality that CRA can be profitable."³⁰

With increasing profitability, new lenders entered the community lending field, increasing competition and access by affordable housing developers and affiliated community groups. With community development innovation and service driving CRA scoring, lenders felt increasing pressure to expand their programs and undertake larger, more complex projects in order to maintain their "Outstanding" ratings and gain an edge over their competitors. As one lender noted, "what was innovative in 1995 is not novel today."³¹ Within this context, large banks would seek deeper investments in low-income minority communities, expanding from a strategy of bank branches, ATMs, and mortgages to small business lending and real estate development finance. In New York, where over 400 banks were headquartered, the competition for high CRA rankings among a number of national and international institutions would push banks into the public-private partnerships for affordable housing construction that would ultimately coalesce into the building boom of the early 2000s.

2.5 CONCLUSION

The evolution of CRA/HMDA from obscure regulation to critical driver of private investment in low-income minority communities was a decades-long, non-linear journey that

³⁰ Ibid., 19.

³¹ Ibid., 25.

involved multiple actors with multiple motives – many of which were not related to community development. However, community advocates – legislators, journalists, and policy experts as well as grassroots organizers – were opportunistic in their pursuit of CRA/HMDA reform, recognition, compliance, and innovation.

The transformation of CRA/HMDA was catalyzed by events related more to Midwestern office parks than to the inner city: the "savings and loan" (S&L) crisis of the late 1980s. The Reagan years brought a boom and subsequent bust in real estate precipitated particularly by changes in tax laws. Lax regulation and oversight of the banking industry allowed an extraordinary bust that forced thousands of banks to close their doors and liquidate their assets.

This banking industry crisis ultimately led to tighter banking regulations in the form of FIRREA. Through the work of community advocates, including at the legislative level, FIRREA included a more accessible and comprehensive CRA and HMDA that simplified CRA rankings and expanded HMDA data collection.

Following FIRREA, CRA/HMDA data became a powerful tool for community advocates, including investigative journalists and elected officials. As CRA/HMDA data spread across policy and activist communities, analytical capability increased along with the capacity to publicize these analyses and utilize them as leverage for change. Federal regulators also undertook steps to demonstrate their commitment to CRA enforcement. As the banking industry faced increasing pressure to consolidate, swift and unconditional regulatory approval for mergers and acquisitions became an operational priority. Consequently, many banks, which had already begun steps toward more active CRA compliance, soon would make CRA a central focus of their business strategies.

In the fourth phase, modifications to CRA/HMDA would place more detailed requirements for large banking institutions beyond mortgages, recognizing both the

increased ability of large banks to undertake such activities and the influence that federal regulators could now exert on increasingly global financial services firms. In exchange for the oversight and insurance role played by the federal government, regulators felt entitled to place emphasis on more complex forms of community involvement such as small business lending and community development "innovation." In the competition for CRA credit that would serve as a de-facto carte blanche for merger and expansion activity, banks actively sought new investments with new partners in government and the non-profit sector.

In this way, through the evolution of CRA/HMDA, a chain of events sometimes unrelated to community lending would ultimately push billions in private capital into low-income urban communities. However, once "pushed" into these communities, private lenders had many nascent investment options, ranging from mortgages, to small business lending, to construction finance. What factors led private lenders to choose to invest in affordable housing, in Harlem, at the turn of the millennium? What role would the discovery of profitability in low- and moderate-income communities play in the expansion of banks into these communities?

Chapter 3: Pull Factors – Local Capacity and a Strategic Plan

In concert with the "push" of CRA/HMDA and financial industry consolidations, a number of factors worked to "pull" financial capital to low-income minority communities. In Harlem, two factors stood out. The first was the development of an experienced team of community development professionals "from the dirt to the dollars," encompassing lenders, intermediaries, the public sector, and developers, each with decades of expertise gained working in low-income New York communities and, equally important, working with each other. This experienced local talent decreased the risk and increased the likelihood of success in developing affordable housing in Harlem. Second, the public sector (led by some of these same experienced professionals) undertook a comprehensive, geographically-focused strategy for community development that incrementally built up neighborhood capacity, first to stabilize and then to grow. This "roadmap" offered a degree of stability and a vision that decreased uncertainty in the community's future. The combination of a team of professionals ready to undertake innovative new projects and a viable, incremental strategy set by the public sector offered a compelling investment rationale for Harlem.

3.1 DEVELOPING LOCAL CAPACITY

One of the most critical factors that facilitated affordable housing development in Harlem in the late 1990s and early 2000s was the extensive expertise, relationships, and shared vision developed by a broad and deep network of community development professionals going back well into the 1980s and earlier. At both the political/program and

construction/development level, Harlem in particular and New York City in general developed a robust system of housing production that, at the turn of the 21st century, was able to effectively draw and deploy capital in a newly "hot" real estate market. This system was created largely in response to various conditions imposed upon the city's affordable housing community by various external forces, from an increasingly conservative national political environment to the active participation of powerful business leaders in the city's housing policy. Ultimately, the affordable housing "pipeline" in New York City was designed, implemented, and upgraded on an iterative basis by a group of individuals and organizations that would build knowledge and trust with each new endeavor. Most important among these actors would be the leaders and alumni of the New York City Partnership and its housing programs, Partnership New Homes and Neighborhood Builder. From these programs would come not only the senior leaders of the public and private sector organizations planning and financing new construction in Harlem, but also the developers that would arrange, build, and market the projects.

Conceptual Framework: the New York Context

The changing fiscal environment of the 1980s and the political will of the Koch administration provided a critical financial foundation for the development of affordable housing development capacity. First, the creation of Battery Park City from fill excavated for the original World Trade Center promised to contribute \$1 billion to the city, in the form of "Payments in Lieu of Taxes" (PILOT) specifically earmarked for housing.¹ As newly created infill property which had previously been mapped as part of the Hudson River, Battery Park City was technically controlled by the State of New York and thus, negotiations between the State and the City were required to establish property taxation, public services, and other

¹ Smithsimon, Greg, "Affordable Housing Gets Sacked," *Village Voice*, July 21, 2004.

governance structures for the neighborhood. These unique arrangements would provide the legislative flexibility to dedicate funds exclusively for affordable housing. Second, the 1984-1986 refinancings of Municipal Assistance Corporation debt from the City's 1970s fiscal bailout offered over \$1 billion in reduced borrowing costs through 1995, savings to be used for priority programs of the Koch administration.²

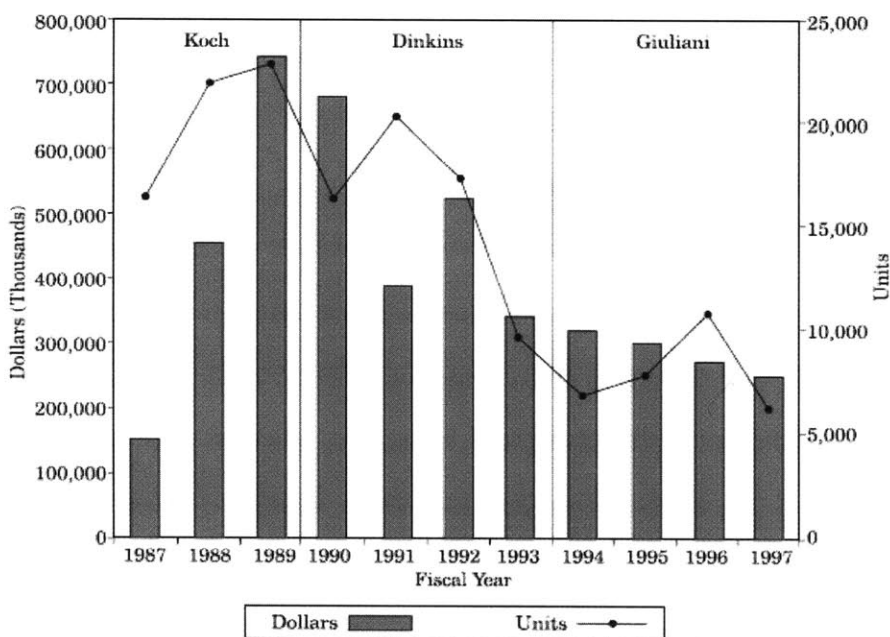
With these funds projected to be available, Koch undertook an ambitious "Ten Year Plan" to create 150,000 units of affordable housing in ten years. Beginning in 1987, the City of New York would commit capital funding on the order of \$350-750 million per year over ten years, as the Dinkins and Giuliani administrations continued to advance Koch's initial plan.³ Despite a declining trend of City capital commitments (which would in the late 1990s begin to be substituted by private sector capital), Ten Year Plan funds would provide critical seed money and subsidies for various housing initiatives through the end of the 1990s.⁴

² Municipal Assistance Corporation for the City of New York, *Annual Report 1987* (New York: Municipal Assistance Corporation, 1987), 3.

³ Wylde, Kathryn, "The Contribution of Public-Private Partnerships to New York's Assisted Housing Industry" in *Housing and Community Development in New York City: Facing the Future*, ed. Michael Schill, 76 (Albany, NY: State University of New York, 1999).

⁴ Schwartz, Alex, "New York City and Subsidized Housing: Impacts and Lessons of the City's \$5 Billion Capital Budget Housing Plan," *Housing Policy Debate* 10, no. 4 (1999): 839-877.

Figure 3.1: Capital Commitments and Production of the Ten Year Plan (reprinted from Schwartz)



Source: City of New York, Department of Housing Preservation and Development, unpublished data.

Source: Schwartz, 840.

Wylde asserts that the financial commitment of local, as opposed to federal, government was key to bringing "market discipline" to affordable housing production in New York. Various regulations attached to federal funding, such as the Davis-Bacon Act that required paying prevailing wages (and documenting payments – which could be an onerous task, especially for small businesses in labor-intensive industries such as construction), federally prescribed site and neighborhood standards, and auditing and review requirements, left many federally-funded affordable housing programs with a "compliance" rather than a "production" focus. With most of New York City's CDBG funding diverted to funding City staffing (e.g. police, firefighters, and teachers) and emergency maintenance programs, the city's affordable housing programs were funded through local capital sources

such as the Ten Year Plan and state sources such as the Neighborhood Preservation Companies Program, which assisted community and tenant groups in their transition from advocacy to development and management of affordable housing.⁵ The relative freedom provided by local and state funding fostered what Wylde describes as an “entrepreneurial approach” that valued production and innovation.⁶

As local and state funding was doled out in smaller lump sums than federal funds in other localities, New York firms undertook affordable housing development projects that were small scale and neighborhood-specific, seeking incremental improvements rather than the large-scale change that federal programs of decades past sought to achieve. Despite their individual small scale, these numerous projects were substantial in the aggregate and led not only to substantial housing production – between 5,000 and 25,000 units per year as seen in the chart above – but also substantial skill building and experience across numerous local developers and community groups. Perhaps the organization that took greatest advantage of this new framework – indeed, the organization that in many ways helped to invent it – was the New York City Housing Partnership.

A Critical Incubator and Intermediary: The New York City Housing Partnership

In 1981, David Rockefeller, head of Chase Manhattan Bank and chairman of the New York City Partnership – the city’s “chamber of commerce” and a powerful civic organization whose members included many of the leaders of the global corporations headquartered in New York – announced the creation of the New York City Housing Partnership.⁷ Ironically funded initially by \$30 million in HUD grants (the last of a sunset program, the Urban Development Action Grant), the public-private partnership sought a new paradigm for

⁵ Wylde, 74-76.

⁶ Ibid.

⁷ Ibid., 73.

affordable housing construction in line with the political conservatism of the new Reagan administration and the fiscal conservatism in the wake of the New York City fiscal crisis and the nationwide stagflation only a few years earlier.

The Housing Partnership would implement an innovative new "public-private partnership" for affordable housing construction, the Partnership New Homes (PNH) program, that would leverage private-sector capital and market discipline with state and local public-sector resources and policy toward an initial goal of 30,000 new homes in five years.⁸

Partnership New Homes would operate with a standard process for building a roughly standard product – the two-family rowhouse. The City of New York, through HPD, would select appropriate City-owned sites for the program. Then, HPD and the Partnership would issue a Request for Qualifications (RFQ) for qualified builders and then evaluate the responses. Qualified builders would then be matched to sites and HPD and the Partnership would then work with the selected developers to acquire public approvals, arrange financing, and undertake development and construction.

Partnership New Homes generated projects on the order of 1,300 units per year beginning in 1987 and continuing to the present⁹. The program thus served as a fertile training ground in which to develop and refine the key processes required in turning publicly-owned land into privately-owned housing. On the governmental side, systems were developed for legal, environmental, accounting, design, and public approvals frameworks to evaluate and ultimately approve projects. Internal HPD standards for room sizing and building materials, for example, were developed following complaints from early projects. Similarly, legal boilerplate documents for land disposition agreements and purchase money

⁸ Orlebeke, Charles, *New Life at Ground Zero: New York, Homeownership, and the Future of American Cities* (New York: Rockefeller Institute, 1997) 46-7.

⁹ Housing Partnership Development Corporation, "Mission," Housing Partnership Development Corporation, <http://www.housingpartnership.com/about/mission.php> (accessed March 5, 2007).

mortgages were created and adjusted over time based on experience with completed projects.¹⁰

Selected developers that proved their ability to complete projects on time and on budget were rewarded with additional selections in future RFQs. Some builders would come to create hundreds of units over more than a decade, effectively becoming niche "Partnership" developers. Others, however, would use Partnership projects to build capital and capacity in order to take on larger non-Partnership developments. By the late 1990s, many Partnership builders were firms that did substantial non-Partnership work, for example, Artimus Construction, the Bluestone Organization, and Santa Fe Construction.

However, in its experience with PNH, the Partnership noted with increasing alarm that by 1989, not one of its PNH developers were minority-owned. The issue was a structural "catch-22": as small firms, often sole proprietorships, many minority contractors lacked the amount of corporate or personal wealth that banks required to collateralize loans. However, without loans, minority firms could not undertake projects that would allow them to gain wealth.¹¹ In response, the Partnership created the Neighborhood Builder Program with the goal of bringing "struggling, minority-owned building contractors into the mainstream of New York City's white-dominated construction industry."¹²

The program, named "Neighborhood Builder Program" to avoid the political polarization of the term "minority business" and the pejorative connotation of the term "small business," was the result of an extensive lobbying and funding effort on the part of the powerful and wealthy individuals associated with the Partnership. Lobbying of Mayor Ed Koch by James D. Robinson, III, CEO of American Express and new chairman of the New York City Partnership, among many others, produced an agreement between the City and

¹⁰ John Waters, Esq., former Deputy Director for Large Scale Projects, NYCHPD, interview by the author, New York, NY, February 26, 2007.

¹¹ Orlebeke, 150-1.

¹² Ibid.

the Partnership on site selection and support. Financial grants from the Ford Foundation, the J.C. Penney Foundation, the New York Community Trust, and the Taconic Foundation, among others, allowed the program to hire personnel and further design the program. Fred Wilpon, owner of real estate firm Sterling Equities and the New York Mets baseball team, was appointed chairman of the Community Partnership Development Corporation, the umbrella entity for Neighborhood Builder, and pledged \$500,000 to a construction loan guarantee pool for the program.¹³

Neighborhood Builder kicked off in 1988 with a Request for Qualifications for developers for five small sites across New York City. The program would pair selected minority developers with a "veteran builder" that would provide technical assistance and general mentorship. Overseeing the new program would be Deborah Wright, a former investment banker and Harvard MBA/JD that had recently overseen the successful marketing of Towers in the Park, the PNH program's first and only high-rise development.

By 1994, the Neighborhood Builder Program had developed 807 units totaling \$92.4 million in development. Twelve minority firms had participated, and these firms had grown on average from \$1.6 million to \$4.5 million in value, with average contract value increasing from \$1.0 million to \$8.9 million and average payroll growing from \$325,000 to \$1.4 million.¹⁴

PNH and the related Neighborhood Builder Program became a powerful housing production system, generating 13,000 homes by 1999.¹⁵ Equally important, the program's stability and consistent production allowed numerous professionals across the community development spectrum to hone their skills and learn the low-income, minority markets in which Partnership homes were built. These programs built up the capacity and expertise of contractors and developers that would later build the large-scale new developments across

¹³ Ibid., 155.

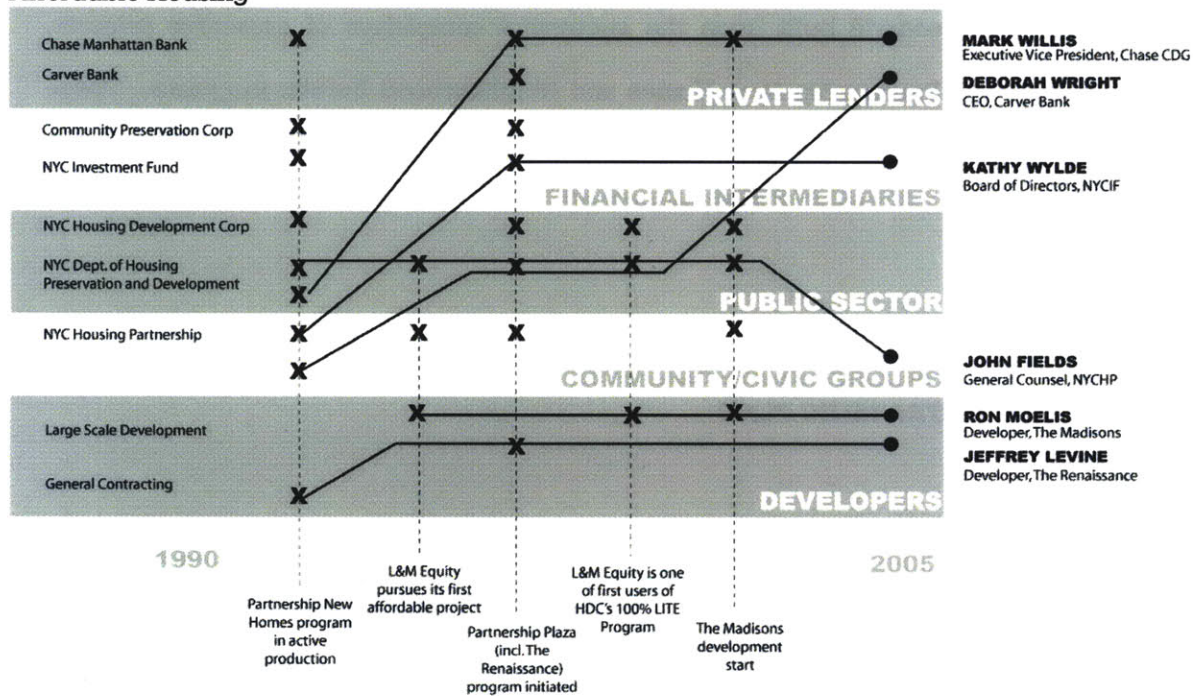
¹⁴ Ibid., 158.

¹⁵ Wylde, 79.

Harlem. PNH and Neighborhood Builder also helped the Partnership and HPD refine their selection, approvals, legal, and monitoring practices such that the programs became truly well-defined, consistent "systems" of affordable housing production that would ultimately secure \$5 billion of private capital to match the City's \$5 billion commitment to affordable housing.¹⁶

Most importantly, PNH and Neighborhood Builder strengthened the bonds between individual and institutional actors, creating a network that fostered consensus and increased the political and financial capital of all within the "circle." As illustrated in the chart below, many alumni of and organizations related to PNH and Neighborhood Builder would expand or change roles within the NYC affordable housing network, bringing their expertise, ideas, and relationships to their next position and project – and the next after that.

FIGURE 3.2: Illustrative Network of Individual and Institutional Relationships in NYC Affordable Housing



Source: Author, HPD, HDC

¹⁶ Wylde, 75.

The table above maps the career paths of an illustrative set of individuals over time as well as the interactions of the various organizations that employed these individuals on various projects. As shown, individual mobility across organizations was common across numerous disciplines: Deborah Wright, for example, began her career at the Partnership (working under Kathy Wylde) as discussed above, and later moved to City government as the Commissioner of HPD before becoming CEO of Carver Bank. Similarly, the interactions among institutions and disciplines was also broad and consistent over time: for example, HPD provided a regular City point of contact on various programs while HDC provided supplemental financing and Chase was a frequent private-sector "pioneer" that invested early in new programs and projects. By the mid 1990s, a broad and deep network of experienced professionals across the public, private, and civic sectors had developed the bonds of trust and goodwill built upon the successful completion of numerous projects, primarily through the Partnership New Homes and Neighborhood Builder programs. These actors were ready to take on the opportunities of the strengthening real estate market in Manhattan.

3.2 DEVELOPING A STRATEGIC PLAN

Concurrent with the increasing familiarity and expertise being developed across the affordable housing development field, members of City government were formulating – in both deliberate and emergent ways – a sustained, comprehensive strategy for community development, drawing upon experiences in affordable housing and community development reaching back to the Koch years. This strategy, named Building Blocks, would help to

articulate the vision and focus the energies of the city's affordable housing network on the next generation of affordable housing development.

Despite the substantial production of PNH and Neighborhood Builder, Harlem in the mid-1990s continued to exhibit many of the problems affecting American urban communities of the era. Crime rates were a significant community concern and a substantial portion of the housing stock sat vacant or under-utilized in public-sector ownership. In 1994, the City of New York owned and managed 5,458 properties – 44,000 total housing units – “of mostly dilapidated multi-family housing occupied by a low-income population,” concentrated primarily in low-income communities such as Harlem.¹⁷ Moreover, the problem was getting worse – in 1994, while HPD struggled to return 3,000 units to private ownership, the agency took in 4,000 units foreclosed due to tax delinquency.¹⁸ As late as 1998, the City of New York spent over 64% of its CDBG funds allocated to housing – \$100 million out of \$155 million – on maintenance of City-owned properties.¹⁹

Within this context, Mayor Giuliani, freshly elected in the fall of 1993, appointed Deborah Wright, the original director of Neighborhood Builder, as HPD Commissioner. Following her time at the Partnership, Wright had served as a board member and managing director of the NYC Housing Authority and as a City Planning Commissioner. With almost a decade of community development and housing experience under her belt, Wright and her staff set about creating a framework for addressing the problems of past and present property neglect – abandoned properties already left to the City, and the presently derelict

¹⁷ NYC Mayor's Office of Operations, *Reengineering Municipal Services 1994-2001 – Mayor's Management Report Fiscal 2001 Supplement* (New York: Mayor's Office of Operations, 2001), 188.

¹⁸ Orlebeke, 163.

¹⁹ NYC Independent Budget Office, "New York City's Use of CDBG Funds," NYC Independent Budget Office, <http://www.ibo.nyc.ny.us/newsfax/NewsFax141Table.pdf> (accessed December 18, 2006).

and tax-delinquent private properties that were well on their way to suffering the same fate.²⁰

The framework created by Wright was titled Building Blocks. Building Blocks consisted of a geographically-focused strategy of multiple interventions to achieve a comprehensive physical turnaround of a neighborhood – literally block by block. Within the Building Blocks framework, two programs were created to transfer City-owned properties to responsible private ownership: the Neighborhood Entrepreneurs Program (NEP) and the Neighborhood Revitalization Program (NRP). Each of these would rely extensively on the Housing Partnership for key program and technical assistance.

To stem the tide of new foreclosures, HPD reorganized and re-oriented its property management, legal, and related services divisions toward a focus on anti-abandonment, while the NYC Department of Finance would more aggressively pursue property tax delinquencies and the NYPD would more aggressively patrol Building Blocks neighborhoods.²¹ The City created two distinct strategies for non-distressed and distressed tax-delinquent properties. For non-distressed properties, the Department of Finance pursued active collection practices, including selling tax liens to collection agencies. For distressed properties, the owners of which were unlikely to be able to pay delinquent taxes, the City sought a legislative remedy that would allow the properties to be passed lien-free from tax-delinquent owners to qualified third parties without first entering City ownership. With the passage of Local Law 37 by the City Council in 1996, such “third party transfers” became the City’s standard approach for dealing with distressed tax-delinquent properties.²² These third party transfers would provide the legal mechanism to make NEP/NRP possible.

²⁰ Orlebeke, 164-5.

²¹ Ibid.

²² NYC Department of Housing Preservation and Development, "Rehabilitation: Third Party Transfers," NYC Department of Housing Preservation and Development, <http://www.nyc.gov/html/hpd/html/developers/third-party-ownership.shtml> (accessed April 3, 2007).

NEP/NRP sought to stabilize Harlem's housing stock by transferring ownership and management of "clusters" of City-owned properties to local developers and non-profits. In doing so, the City sought to increase the property management capacity of local groups, which had been "decimated" over the previous two decades.²³ The Partnership would play a pivotal role for NEP/NRP: the Partnership held title to the NEP clusters for a provisional period of up to three years while the designated community groups demonstrated their abilities and increased their capacity as "owner/managers in training." More broadly, the Partnership entered into various contracts with local providers for assistance with social services for tenants and monitoring/auditing of the owner/manager in training. In June 1995, the first round of 106 buildings totaling 1,157 units in clusters across Harlem, Brooklyn, and the Bronx was transferred to 11 Neighborhood Entrepreneurs.²⁴ In addition to the Partnership's network of financial and technical commitments, the NYC Housing Development Corporation also committed \$850,000 in the form of a zero-interest loan as seed money to fund the program's initial operating deficits and temporary relocation costs for tenants whose buildings were being renovated.²⁵

Between 1994 and 2001, the City constructed or rehabilitated over 73,000 apartments and averted over 6,000 property foreclosures through Third Party Transfers. This represented a remarkable turnaround in the span of less than a decade: from owning 44,000 housing units in 1994, the City had by 2001 obtained financing commitments to divest its entire tax-foreclosed property holdings.²⁶

²³ NYC Mayor's Office of Operations, 189.

²⁴ Orlebeke, 166-7.

²⁵ NYC Housing Development Corporation, *HDC Annual Report 1995* (New York: NYC Housing Development Corporation, 1995), 3.

²⁶ NYC Mayor's Office of Operations, 188-193.

3.3 CONCLUSION

The stabilization and rehabilitation initiatives of the mid-1990s served as a critical foundation for the new construction projects of increasing scale that would occur in the late-1990s and early 2000s. The various components of Building Blocks helped to staunch the decline of low-income neighborhoods such as Harlem at the grassroots, block level, while Giuliani-era policing efforts reduced crime and the broad economic growth of the Clinton years brought an upswing in the real estate and many other markets. Building Blocks clearly delineated zones of stability and potential in Harlem, giving lenders, developers, and community advocates a clear map – literally – of which locations would present the strongest opportunities for the successful large-scale construction of affordable housing. With a viable strategy and a proven team in place, the wholesale revitalization of Harlem became an obtainable goal.

Chapter 4: Safety Net Factors – Protection from Risk and Uncertainty

In addition to the "push" and "pull" factors, a third factor was instrumental to jump-starting affordable housing investment in Harlem: the creation of a financial "safety net" that made investing in such projects not only profitable, but substantially low-risk. This safety net was comprised of three parts. First, local planning policy granting land and construction subsidies lowered the cost of projects, reducing the need for debt financing. Second, local and state level financial innovations created low-interest subordinate debt financing that allowed private lenders to offer smaller loans on a loan-to-value basis and thus hold extra security in case of default and liquidation. Third, the creation of robust secondary markets, driven primarily by the evolving role of Fannie Mae and Freddie Mac, provided the capital replenishment and liquidity options that freed banks to undertake ever larger and more complex affordable housing development transactions.

4.1 LOCAL PLANNING POLICIES

By the late 1990s, successful community stabilization had induced policymakers at HPD, HDC, and the Partnership to begin to formulate plans for the City's vast inventory of vacant parcels. Unlike tax-foreclosed "in rem" properties that contained existing housing units, these properties were either empty lots or boarded-up building shells – remnants of arsons and demolitions in generations past. Rather than continue the practice of selling these properties at auction – where speculators might buy and hold properties without undertaking improvements – the City sought to specify development programs for the

various empty sites and to work with private developers to undertake these programs. The success of these early new construction projects depended on two critical elements: 1) Land value subordination and 2) per-unit subsidies from the NYC Department of Housing Preservation and Development.

Subordination of land was a common practice for development on formerly city-owned parcels. The City would sell a parcel to a private entity for \$1 in cash and a subordinated mortgage or enforcement lien in the amount of the remaining appraised value of the land. When structured as a subordinated mortgage, annual payments would consist of interest only, often at a nominal amount such as 1%, and the principal amount would be self-amortizing ("evaporating") or forgiven such that at the end of the mortgage term, the mortgage balance would be \$0. In homeownership projects, the aggregate subsidy given to a project by the City would be assigned to each of the housing unit owners as a self-amortizing, subordinated purchase money mortgage.

The land disposition agreement provided the City with the legal enforcement mechanism for its policy goals, e.g. long-term affordable housing or community facilities. With rental rates and other terms related to public benefit written in to the loan documents, property developers and owners were obliged to comply with agreed-upon programmatic goals or else face a default on the mortgage. In such a circumstance, the developer or owner would not only face recapture of the subordinated land value, but also the technical default of the project's senior mortgages and other debt. Through inter-creditor agreements, the various debt instruments on a project were linked to one another and structured to incentivize both fiscal prudence and adherence to public policy goals. For rental projects, this effectively prevented affordable units from being converted to market-rate – for the 30-year term of the mortgage (the use of the mortgage as the enforcement mechanism for

affordability, rather than long term deed restrictions, land trust or limited-equity mechanisms was an example of a tradeoff between expediency and impact).

For homebuyers as well, the mortgage or liens served as an incentive to remain in the community long-term rather than to "flip" the property for short-term profit. The evaporating mortgage amortized at a steady rate – for Partnership New Homes, generally 1/30 of the principal amount each year over the 30-year term – such that early sale or re-financing required a substantial payback of the subordinated land value and City subsidy. Over time, the financial "penalty" of a sale or re-finance would decline, though presumably the accumulation of non-financial ties to the neighborhood over time would provide a similarly strong incentive to remain in the community.

In the earliest new construction projects, the City of New York also committed substantial City capital funds to "prime the pump." On certain key projects in the late 1990s, subsidies were as high as \$65,000 per unit, an amount equal or exceeding the cost of many properties for sale in the area. Over time, however, the increasing profit potential of affordable and mixed-income developments in Harlem would produce market competition that would introduce not only increased bidding for City-owned sites, but also induced increasing private lender participation and developer equity contributions, reducing the need for per-unit subsidies. On some projects, the City would no longer need to subordinate land value, though affordability covenants would continue to be written into loan documents; on other projects, the City could subordinate land value but offer no additional per-unit subsidies. As time passed and projects were completed and successful, Harlem's affordable housing production became more "market-driven" as subsidies were reduced and competition for sites increased.

4.2 STATE AND LOCAL FINANCIAL INNOVATIONS

Creative new financing mechanisms developed at the state and local level played a pivotal role in fostering affordable housing production through the late 1990s and early 2000s. In Harlem, the work of the New York City Housing Development Corporation (HDC), a public benefit corporation chartered in 1971, served as a critical lynchpin of the financing of numerous projects and was illustrative of the types of state and local financial innovations of the era. The evolution of HDC from a conservative municipal bond issuer into a sophisticated structured finance agency during this period positioned the corporation – and the neighborhoods in which it worked – to take advantage of broader trends in the real estate market.

HDC was created in 1971 as a public benefit corporation, effectively an off-balance sheet financing stream separate from the City's capital budget for the purpose of creating and preserving affordable housing¹. Through an act of the New York State Legislature, HDC was given bond-issuing authority up to \$800 million – a figure that would be increased at various times in future years – that would allow HDC to not only be economically self-sufficient, but also a substantial profit center for the New York City municipal government.

HDC operated with a governing board of seven directors, with the Commissioner of HPD serving as ex-officio chair and the Commissioner of the NYC Department of Finance and the Director of the Office of Management and Budget also serving as ex-officio board members. The Mayor and the Governor each appoint two additional members of the HDC board.² Under this structure, HDC worked closely with HPD to provide financial expertise and capital to further the housing agency's policy goals. Moreover, ties to the State

¹ NYC Housing Development Corporation, "Timeline of HDC – 1970s," NYC Housing Development Corporation, <http://www.nychdc.com/about/1970.html> (accessed March 2, 2007).

² NYC Housing Development Corporation, "HDC Board Approves Charles Brass as HDC's New President," http://www.nychdc.com/PressRoom/pr_brass.html (accessed March 30, 2007).

government also connected HDC to state-level funding streams such as the state-allocated Low Income Housing Tax Credit and “Volume Cap” tax-exempt bonds (which in New York was apportioned between “Upstate” – administered primarily by the New York State Housing Finance Agency and the Department of Housing and Community and Renewal – and New York City – administered primarily by HDC).

Through its first two decades, HDC assisted the city, state, and federal governments in financing key housing policy initiatives in the face of various fiscal crises. In 1973, for its second and third bond issuances, HDC issued \$114 million in bonds to refinance two affordable Mitchell-Lama program apartment complexes in Manhattan in danger of converting to market-rate due to the expirations of their mortgages³ (thirty years later, HDC would return to refinance many of these same projects as their refinanced mortgages would expire). Through New York City’s fiscal crisis of the late 1970s, HDC reached out to private institutions and the federal government in establishing forward commitment, rate lock, and credit enhancement practices that allowed the corporation to continue to achieve its primary goal of financing housing development while much of City government ground to a halt or experienced drastic cut-backs. Moreover, with its ability to refinance and effectively syndicate debt, HDC was able to provide much-needed revenue – “nearly half a billion dollars in assistance” – to the nearly bankrupt City⁴. These experiences allowed HDC to increase institutional capacity in debt structuring and placement, form a strong track record of success and stability (therefore achieving a strong credit rating from the rating agencies), and build relationships with private financial institutions and public sector officials.

In the late 1990s, HDC undertook a new wave of financial innovation based on the needs and circumstances of the era. These included the creation of an in-house credit

³ NYC Housing Development Corporation, *HDC Annual Report 1973* (New York: NYC Housing Development Corporation, 1973), 7-8.

⁴ NYC Housing Development Corporation, "Timeline of HDC – 1980s," NYC Housing Development Corporation, <http://www.nychdc.com/about/1980.html> (accessed March 2, 2007).

enhancement subsidiary (REMIC), the creative deployment of HDC reserves, and the creation of new financial products for low-income housing.

Credit Enhancement Program: REMIC

In 1993, HDC formed the Residential Mortgage Insurance Corporation (REMIC), a subsidiary that insured private mortgages. In later years, REMIC would become an importance source of credit enhancement for HDC in the face of the lack of track record for the multifamily and new construction projects of the late 1990s and early 2000s. With REMIC back-stopping HDC first-position mortgages, credit rating agencies were provided a level of comfort that the HDC bonds issued to finance HDC mortgages could support high investment-grade ratings and, subsequently, the bonds were able to be placed with lower interest rates to more willing buyers. By 1995, REMIC was rated "A+" by Fitch ("AA-" by 1997) and major HDC mortgage and bond buyers such as the New York City Employers Retirement System (NYCERS) paid up to 20 basis points less than a year earlier for HDC mortgages⁵. These savings were passed through to project developers, decreasing the need for subsidies.

New Ways to Utilize Reserves

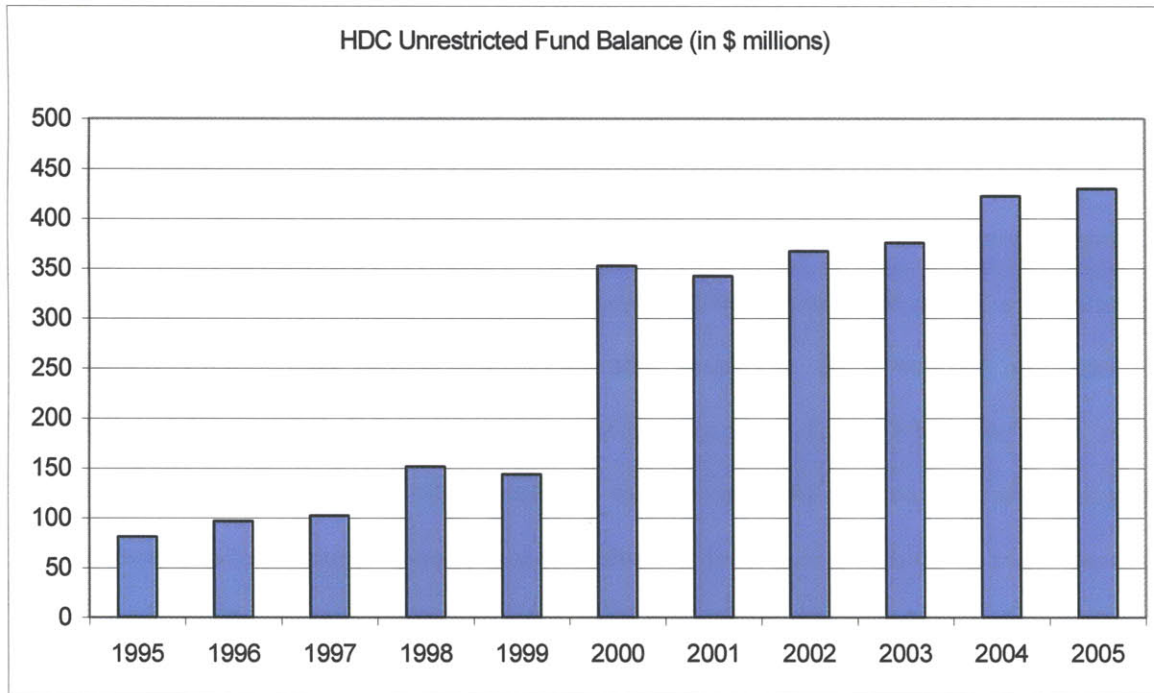
In the aftermath of the early 1990s real estate recession, HDC undertook a series of refinancings of its high-interest rate obligations of the late 1970s and early 1980s and began to increase its lending activity for rehabilitation projects. With a standard 1-3% commitment fee on its lending activities, HDC generated more fee income as its lending increased. In 2000, the HDC board amended its policies to allow investment in short-term commercial

⁵ NYC Housing Development Corporation, "Timeline of HDC – 1990s," NYC Housing Development Corporation, <http://www.nychdc.com/about/1990.html> (accessed March 2, 2007).

paper, which, in tandem with increased project lending, led to a substantial jump in the value of the corporation's reserves. From a value of a little over \$80 million in 1995, the HDC unrestricted reserve balance rose to over \$150 million in 1998 before jumping to over \$350 million in 2000.

HDC executives recognized the programmatic as well as political imperative to deploy the corporation's substantial excess capital toward its affordable housing objectives. To that end, HDC utilized its reserves for a number of catalyzing activities, including seeding the Neighborhood Entrepreneurs Program in 1995, funding vacant building renovations in the early 1990s, and creating below-market "blended rate" financing consisting of reserves and bond proceeds for pioneering projects such as the Renaissance. In later years, the substantial sums held in HDC's reserves would be tapped for Mayor Bloomberg's New Housing Marketplace initiative.

Table 4.1: HDC Unrestricted Fund Balance 1995-2005 (in \$ millions)



Source: HDC Annual Reports 1995-2005

Low Income Housing Financial Products

In the wake of TRA86 and the early 1990s real estate recession in New York City, development of “80/20” projects combining market-rate and affordable units became an economically advantageous property structure. Consequently, demand for Low Income Housing Tax Credits increased, and through the late 1990s, the richest 9% tax credits became increasingly oversubscribed in New York. Responding to this situation, HDC created financial products that sought to approximate the favorable interest and tax properties of the 9% credit. In 1997, using a mix of 4% credits, which were in less demand than 9% credits, and HDC reserves, HDC created the 100% Low Income Tax Exempt (100% LITE) program that provided financing to eight developments placed in jeopardy when they were denied 9% credit allocations.

HDC utilized its financial flexibility and creditworthiness to tailor its funding to help projects meet the more stringent requirements of other programs. For example, in HDC's first round of 100% LITE financing, the corporation executed a simultaneous refinancing leveraging its strong credit rating to refinance other HDC bonds and use the savings to cross-subsidize a more favorable interest rate for the 100% LITE projects. Consequently, the developments were able to borrow a higher principal amount of tax-exempt financing and thus qualify for a higher basis with which to obtain 4% tax credits.⁶

Similarly, various HDC programs took advantage of the City's 421-a Certificate program, an artifact of the 421-a tax abatement which granted developers of low-income housing five “certificates” for each one unit of low-income housing created. Each of these certificates could be sold to a market-rate developer to obtain a 10-year partial property tax

⁶ NYC Housing Development Corporation, *HDC Annual Report 1997* (New York: NYC Housing Development Corporation, 1997), 4.

exemption for one market-rate residential unit. With the proceeds, affordable housing developers could fund the development costs of their project. Since low-income 421-a certificate properties were required to be debt free, HDC structured financing that allowed bond-derived construction debt to be “taken out” by LIHTC proceeds and/or the 421-a proceeds themselves.⁷

HDC and other financial intermediaries stepped in to fill the funding and guarantee role previously held by the federal government. As Schnare notes, state and local housing finance agencies (HFAs) became increasingly important through the 1980s and 1990s and today eclipse the federal government in terms of market share for affordable housing.⁸ Rather than provide pure subsidy, however, HFAs such as HDC sought to encourage private investment by providing subordinate financing and credit enhancement. These new financial products and practices allowed HDC to address inefficiencies in the market and utilize the agency’s expertise in New York affordable housing to mitigate the risk perceived by private senior lenders. While HDC’s offerings may have been the broadest set of financial products tailored to New York City affordable housing development, the agency was by no means alone – for example, the State of New York Mortgage Agency (SONYMA) had offered credit enhancement through its Mortgage Insurance Fund since 1978⁹ and was the credit enhancement of choice for early affordable housing new construction projects in the mid-1990s. Together, the web of New York HFAs and financial intermediaries provided a key part of the “safety net” that gave private senior lenders the comfort to invest in affordable housing new construction in Harlem.

⁷ Ibid.

⁸ Schnare, Ann, *The Impact of Changes in Multifamily Housing Finance on Older Urban Areas* (Washington, DC: Brookings Institution, 2001), 15.

⁹ Federal Reserve Banks of New York and Philadelphia, *Preserving Multifamily Rental Housing: Noteworthy Multifamily-Assistance Programs* (New York: Federal Reserve Bank of New York, 2001), 7.

4.3 SECONDARY MARKETS

A second key piece of the “safety net” was the development of secondary markets for multifamily loans. Whereas financial products such as those developed by HDC offered lenders the margin of safety to originate loans to affordable housing projects, the establishment of robust secondary markets allowed lenders to “sell” these loans to recover their capital, effectively transferring some (though not all) of the risk of the loan to a counterparty. The development of secondary markets can largely be attributed to government intervention – specifically, the creation and evolution of the Federal National Mortgage Association, a.k.a. Fannie Mae, and the Federal Home Loan Mortgage Corporation, a.k.a. Freddie Mac. Like the evolution of CRA/HMDA, the evolution of Fannie Mae and Freddie Mac was a decades-long, non-linear process that transformed their initially broad mandates into targeted and powerful community-development initiatives.

Fannie Mae and Freddie Mac: Early History

Fannie Mae was chartered in 1938 to increase bank liquidity in the midst of the Depression by creating a secondary mortgage market through the purchase of Federal Housing Administration (FHA)-insured mortgages. In the wake of another crisis – the urban riots and civil rights struggles of the mid-1960s – the Housing and Urban Development Act (HUDA) of 1968 was passed, beginning the transformation of Fannie Mae into the capital market powerhouse that it is today.

Title VIII of HUDA divided Fannie Mae into two separate organizations. The first organization, which retained the Fannie Mae name, was effectively “spun off” from the

Federal government as a Government Sponsored Entity (GSE) – a private-sector corporation with shares issued and listed on the New York Stock Exchange, but with a government charter and a share of its board of directors elected by the President of the United States.¹⁰ The second organization, named the Government National Mortgage Association (Ginnie Mae), encompassed the former Fannie Mae's special assistance and liquidation programs and continued to provide a Federal guarantee on FHA and Veterans Administration (VA)-issued mortgage products. While the new Fannie Mae was a private-sector company, Ginnie Mae retained an explicit link to the Federal government and provided the backing of "the full faith and credit of the United States" on the securities it guaranteed.¹¹

On the heels of the Housing and Urban Development Act, Congress chartered the Federal Home Loan Mortgage Corporation (Freddie Mac) in 1970 in order to increase the availability of residential mortgage financing. Freddie Mac's board of directors would be the board of directors of the Federal Home Loan Bank (FHLB) system, effectively linking Freddie Mac's activities to the policy goals of the FHLB and the Federal government more broadly.

Freddie Mac would serve as a secondary market maker for conventional residential mortgages originated by thrifts (i.e. savings and loan institutions). The cornerstone of Freddie Mac's product line would be the Participation Certificate (PC), a security which represented an "undivided interest in a pool of residential mortgages."¹² The PC represented the first mortgage-backed securities allowing institutional investors to hold a share of a pool of residential mortgages.

¹⁰ Belsky, et al., 9.

¹¹ Government National Mortgage Association, "About Ginnie Mae," Government National Mortgage Association, <http://www.ginniemae.gov/about/about.asp?Section=About> (accessed March 10, 2007).

¹² Freddie Mac, *Focus on: Gold PCs* (Washington, DC: Freddie Mac), 1.

The Late 1970s and Early 1980s: Interest Rate Crisis and SMMEA

The high and continually rising interest rates of the late 1970s and early 1980s was extremely detrimental to the homebuilding industry as a whole. In the real estate finance sector, thrifts and other lending institutions faced disintermediation of their lines of business – where previously such institutions could lend money (e.g. for mortgages) at higher rates than that at which they borrowed (e.g. from savings deposits), the "stagflation" of the era and the attempts to curb it reversed these rates and thus put lenders at risk of insolvency.

In response, the newly elected Ronald Reagan convened the President's Commission on Housing in 1981. The Commission found the nation's housing finance system "in a serious state of disrepair," with "wide swings in housing construction and mortgages [in large part] due to shortcomings in [the nation's] housing finance system." With the interest rate crisis peaking in late 1981 with the prime rate exceeding 20%, the Commission recommended "a broader-based and more resilient system... to supply the funds a strengthened housing finance industry will require."¹³

This system recommended a greater role for Fannie Mae and Freddie Mac in the secondary mortgage market, with both purchasing and pooling mortgages and issuing mortgage-backed securities to improve the liquidity and stability of the mortgage industry. Noting that the most robust secondary markets served federally-underwritten mortgages (e.g. insured by Ginnie Mae) and that secondary markets for private conventional mortgages were the most underdeveloped, the Commission sought to put the weight of Fannie and Freddie to work in creating stronger private mortgage secondary markets.¹⁴

To that end, in 1981, Fannie Mae instituted a program to buy mortgages and issue mortgage backed securities, similar to programs at Freddie Mac. Colton asserts that "these

¹³ Colton, 10.

¹⁴ Ibid., 12.

efforts, coupled with numerous other programs, proved to be extremely successful. Fannie Mae moved from a position of instability to one of strong financial capacity, and Freddie Mac grew from a small institution buying mortgages and selling PCs into a major financial institution in the nation's capital market."¹⁵

Following up on the President's Commission, Congress enacted the Secondary Mortgage Market Enhancement Act (SMMEA) of 1984, introducing provisions that would set the stage for Fannie Mae and Freddie Mac to achieve market-maker status in secondary markets for residential mortgages. Title I of SMMEA eliminated various barriers to the establishment of secondary markets, including removing statutory limits on investment in private MBS by federally-chartered depository institutions, specifying that MBS forward or delayed contracts did not constitute the extension of "credit" (and thus were not subject to "credit"-related regulations), and pre-empting state securities regulations on investment-grade MBS, allowing such securities to bypass registration with state regulators and be purchased by state-regulated institutions as if they were federally issued or guaranteed.¹⁶

The Late 1980s-early 1990s: FIRREA and the GSE Act

FIRREA not only altered bank regulations and CRA, but also created changes in the governance structure of Freddie Mac that would allow the organization to become stronger and more independent. FIRREA eliminated the board of the Federal Home Loan Bank, in doing so also eliminating the board of Freddie Mac, and replaced it with the Office of Thrift Supervision, a newly-created arm of the U.S. Treasury. As part of the restructuring, the Freddie Mac charter was revised to a form nearly identical to that of Fannie Mae; its new 18-member Board would consist of five members appointed by the President of the United

¹⁵ Ibid., 11-12.

¹⁶ Library of Congress, "Secondary Mortgage Market Enhancement Act of 1984," Library of Congress, <http://thomas.loc.gov/cgi-bin/bdquery/z?d098:SN02040:@@L&summ2=m&> (accessed March 10, 2007).

States and thirteen members selected by shareholders. The new CEO of Freddie Mac would also serve as chairman of the board. As such, Freddie Mac largely decoupled itself from the FHLB and Federal government, allowing more independent and pro-market business initiatives.

In 1992, the Federal Housing Enterprises Financial Soundness and Safety Act (the "GSE Act") established a new regulatory structure for Government Sponsored Enterprises, i.e. Fannie Mae and Freddie Mac. The Act spread the oversight of Fannie and Freddie between the Secretary of HUD for operational activities and the Director of the OFHEO for financial soundness. More importantly, however, the Act established investment regulations that effectively served as the equivalent of the CRA for GSEs.¹⁷ Specifically, the Act established three goals for the GSEs:

1. A Low- and Moderate Income Housing Goal targeting housing investment for low- and moderate-income families
2. A Special Affordable Housing Goal targeting housing investment for very low-income families (i.e. those at or below 60% of area median income) as well as low-income families in low-income communities
3. An Underserved Areas Housing Goal targeting housing investment in low-income communities and low- and middle-income communities with high minority populations.

To achieve these goals, HUD set specific targets for the share of Fannie and Freddie's total mortgage purchases that met the above goals. These goals were steadily revised upward, beginning in 1992 with a goal for the "transition period" of 1993-1994 and continuing to the present with a goal for the 2005-2008 period originally set in 2004.

¹⁷ US Department of Housing and Urban Development, "HUD's Regulation of Fannie Mae and Freddie Mac", US Department of Housing and Urban Development, <http://www.hud.gov/offices/hsg/gse/gse.cfm> (accessed April 2, 2007).

TABLE 4.1: GSE Housing Goals set by HUD¹⁸

Housing Goal	Goal Level				
	2005	2006	2007	2008	2001-2004
Low- and Moderate- Income	52%	53%	55%	56%	50%
Special Affordable	22%	23%	25%	27%	20%
Underserved Areas	37%	38%	38%	39%	31%

Source: US Department of Housing and Urban Development

In addition to the housing goals, HUD set two key "subgoals": the Home Purchase Subgoal and the Special Affordable Multifamily Subgoal. The Home Purchase Subgoal mandated a percentage of mortgages purchased by the GSEs be for purchases – not refinancings – of single-family, owner-occupied homes. Similarly, the Special Affordable Multifamily Subgoal mandated a minimum dollar volume of mortgages purchased be for affordable housing units in multifamily buildings.

TABLE 4.2: GSE Special Affordable Multifamily Subgoals set by HUD

Special Affordable Multifamily Subgoal	New Subgoal Levels 2005-2008	Previous Subgoal Levels 2001-2004
Fannie Mae	\$ 5.49 billion	\$2.85 billion
Freddie Mac	\$ 3.92 billion	\$2.11 billion

Source: US Department of Housing and Urban Development

¹⁸ Ibid.

The Special Affordable Multifamily Subgoal specifically created a demand for new affordable multifamily properties by creating a secondary market for affordable multifamily mortgages. With the Subgoal in place, lenders had a ready market for newly originated mortgages that would replenish their capital and reduce the risk of having to hold such mortgages on their balance sheets. This allowed smaller lenders as well as large banks to participate in lending for affordable housing.

As a result of these legislative interventions, Fannie Mae and Freddie Mac were repositioned to become the cornerstones of the secondary mortgage market. From a 4% market share of multifamily mortgages in 1983, Fannie and Freddie grew to hold 12.5% of the market, for a total value of over \$40 billion, by 1997.¹⁹ As conduits for capital, Fannie and Freddie linked "Main Street to Wall Street," bringing increasingly international capital to local mortgage markets. In doing so, they helped to provide the liquidity and stability that would ultimately allow the margin of safety for new affordable housing developments to be constructed in low-income, minority communities.

4.4 CONCLUSION

The third piece of the affordable housing finance puzzle – the “safety net” that offered risk-averse private lenders the security to invest in the pioneering new affordable housing projects in Harlem in the late 1990s – was stitched together from diverse pieces at the local, state, and national level. At the local level, “pump-priming” practices such as the

¹⁹ Bradley, Donald, Frank Nothaft, and James Freund, “Financing Multifamily Properties: A Play with New Actors and New Lines,” *Cityscape: A Journal of Policy Development and Research* 4, no. 1 (1998): 9-10.

subordination of land value and the provision of per-unit subsidies for groundbreaking projects offered the most direct financial assistance by lowering the cost, and thus the margin of financial safety, of projects. At the state and local level, housing finance agencies such as HDC offered risk-mitigating financing mechanisms such as credit enhancement, below-market rate subordinate loans, and custom-tailored financial products for new affordable housing development. HFAs were able to offer these products not only because of their increased income generated by the "hot market," but more importantly because of their deep understanding of local low-income markets and their ability to underwrite appropriately. At the national level, the establishment of robust secondary markets for multifamily mortgages in particular gave lenders an outlet for return of capital and transfer of risk. This secondary market was the product of decades of evolution and policy change. Taken together, these "safety net" measures made lending for affordable housing projects in low-income, minority communities an attractive proposition in comparison to other potential CRA investments and, ultimately, in comparison to other potential investments in general.

Chapter 5: The Ecosystem at Work

The success of PNH, NEP, and NRP, in addition to the other Building Blocks initiatives, helped to staunch the building abandonment problem and stabilize the Harlem residential market. The PNH program in particular, with its prodigious and consistent production, was seen as particularly successful in demonstrating the existence of a market in Harlem for both homeownership and rental properties, as PNH developments most often consisted of two-family homes with an owner's unit and a rental unit. PNH served as the city's "pioneer" program to establish a foothold in previously "untouchable" areas that had the most substantial abandonment and crime issues. Indeed, the program's robust, financially conservative model would later come to be characterized as "selective underbuilding" and a "defensive" posture that opted to fill vacant city-owned land with small-scale, lower-density projects that were sure to sell out rather than the larger-scale, higher-density products more contextually appropriate for sites along Harlem's major thoroughfares.¹

Within this context, by the mid-1990s, New York's affordable housing community was ready to take the next step toward large-scale construction of affordable and mixed-use developments. Three sets of projects marked key milestones in "Harlem's second renaissance." First, the construction of Maple Court and Maple Plaza returned large-scale residential new construction to Harlem and introduced many of the financial mechanisms that would be utilized for later large-scale projects. Second, The Renaissance represented the first project in a broad initiative, ANCHOR, that united the affordable housing community in large-scale construction, much as PNH had done for small-scale two-family homes. Third,

¹ Waters, John interview.

the construction of Madison Park, Madison Court, and Madison Plaza – collectively, “the Madisons” – represented the first of a more purely “market-based” set of large-scale projects that would be driven by developers and local demand rather than the City or the Partnership.

5.1 MAPLE COURT AND MAPLE PLAZA: EARLY PROOFS OF CONCEPT

In 1995, the opening of Maple Court on Madison Avenue at 122nd Street marked the first new construction of a midrise homeownership project in Harlem in decades. The 135-unit project was spearheaded by North General Hospital and its founder and president, Eugene McCabe. In 1991, North General Hospital, Harlem's lone remaining private hospital and the community's largest employer, relocated from the decrepit Hospital for Joint Diseases to a new facility on Madison Avenue and 122nd Street, across from historic Marcus Garvey Park. A pillar of the community going back to its founding in 1979, North General committed not only to the construction of a new state-of-the-art 240-bed hospital facility, but also to new housing and offices for its workers and the broader Harlem community. From this vision, Maple Court and Maple Plaza were born.

The land for Maple Court, the first of the North General housing developments, was provided by the City of New York out of its in rem inventory for a nominal cash payment by North General of \$67,500 (\$500/unit) and a subordinated land lien of \$1,132,500, representing the appraised value of the land net of the cash payment. This land lien, in the form of a Purchase Money Mortgage, would be repayable only upon the resale of cooperative shares by their purchasers – the City would be entitled to 50% of any profits from such a resale for the repayment of the PMM.

Construction and permanent financing was provided primarily by HDC, which furnished an \$11.8 million mortgage raised via HDC tax-exempt bonds. These bonds were privately placed by HDC with Fannie Mae at a 6.51% rate – a below-market rate approximately 75 basis points less than the 30-year Treasury rate at the time, achievable thanks to HDC's strong credit rating and the commitment of the State of New York Mortgage Agency (SONYMA) in providing credit enhancement². In addition, HPD provided a \$4.725 million 0% interest second mortgage and the City of New York provided a 25-year tax abatement via its 421-a Tax Abatement program.³

The result of these multiple layers of financing was a development affordable to households making 90% of Area Median Income that quickly sold out. The required down payment averaged only \$3,811 per unit, an amount comparable to the security deposit required for a comparable rental unit. As a limited equity cooperative, buyers/shareholders would not need to take out mortgages on their units – the cooperative would instead carry an underlying mortgage to which individual shareholders would contribute via their monthly charges – and so could save on legal fees and other charges associated with the mortgage process (and, most importantly, low-income buyers would not have to be subjected to the potentially difficult mortgage approval process). However, due to the regular payments on the underlying mortgage, shareholders would qualify for a mortgage interest deduction on their income tax returns as well as property tax savings from the 421-a abatement. In the end, residents of Maple Court would pay on average a net maintenance charge of only \$742.⁴

² NYC Housing Development Corporation, *HDC Annual Report 1994* (New York: NYC Housing Development Corporation, 1994), 4-6; and US Treasury, "US Treasury Daily Treasury Yield Curve," US Treasury, http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield_historical_1994.shtml (accessed April 15, 2007).

³ NYCHDC, *HDC Annual Report 1994*, 4-6; and Oser, Alan "For East Harlem, a 135-Unit Midrise Co-op on a Park," *New York Times*, January 9, 1994.

⁴ NYCHDC, *HDC Annual Report 1994*, 4-6.

On the heels of Maple Court, Maple Plaza began construction in 1996 just one block north on Madison Avenue between 123rd and 124th Streets, also on previously City-owned land. With 155 limited-equity cooperative units, the \$21 million Maple Plaza was financed with a \$16.75 million HDC first mortgage and a \$1.62 million HDC interest-only second mortgage at a 3% rate. HPD also provided a \$1.62 million (\$12,000 per unit) subsidy. Consequently, the average total cost of a unit share⁵ at Maple Plaza was only \$7,600, with regular payments affordable to households with incomes between \$32,000 and \$70,000. Twenty percent of units were set aside for households with higher incomes – up to \$118,000 – in a reversal of the usual “80/20” income split.⁶

Maple Court and Maple Plaza were pioneering projects that began to transition Harlem affordable housing development into a systematic process. “Pull” factors included: the formation of the Mt. Morris Homeownership Zone, in which the projects were located, as a geographic focus for a comprehensive Building Blocks strategy; the strong organizational capacity of HPD, which had developed an extensive understanding of the Harlem context; and the leadership of North General Hospital, which had marshaled the political will and resources to bring the projects to fruition in the absence of “push” factors. As the first large-scale projects in Harlem, the Maples were too “risky” to draw private lending and in fact required a “safety net” even for the public financing (through HDC bonds – in this case, HDC served as the senior lender) that was ultimately secured. The safety net features included the provision of effectively free land from the City, cash subsidies from the City, and a commitment from Fannie Mae to purchase the HDC bonds issued for the project. While not utilizing all three aspects of the ecosystem (no private banks could be “pushed” to invest),

⁵ Units at Maple Court and Maple Plaza were sold as “shares” of a corporation, each share or set of shares being equivalent to an individual unit. In a limited cooperative structure, these shares were individually priced generally under \$15,000 so as to not require a mortgage, which would be potentially difficult to obtain for low-income households.

⁶ Garbarine, Rachelle, “New East Harlem Co-op is Priced for Wide Range,” *New York Times*, March 27, 1998.

Maple Court and Maple Plaza constituted the system's first major "pilot" and laid the groundwork for future projects.

5.2 THE RENAISSANCE: A WATERSHED

In the eyes of many, the success of "The Maples" were a direct result of the determination, savvy, and connections of North General Hospital's charismatic founder and president, Eugene McCabe. Doubters would point to the fact that Maple Court and Maple Plaza were intended to house North General staff, rather than the more unknown "Harlem market" at large, and that the relatively low cost and constrained equity stake made the limited equity cooperative model little different than a rental property. Nonetheless, the buildings' successful construction and full occupancy were enough to convince representatives of HPD, HDC, and the Partnership that a market-driven, new construction limited-equity cooperative could be viable.

For this next project, a site was chosen at 116th Street and Malcolm X Shabazz (Lenox) Boulevard, at the southern edge of the Mount Morris Homeownership Zone, a few blocks from the Maples and down the street from a cluster of PNH homes. In 1997, developers Stuart Suna and Jeffrey Levine were selected to undertake development of their proposal for the site: The Renaissance.

The Renaissance was a \$60 million, 241-unit limited equity cooperative with 60,000 square feet of ground-floor retail. The project was the first major project in Manhattan for the Alliance for Neighborhood Commerce, Homeownership, and Revitalization (ANCHOR) program, a collaborative effort between HPD and the NYC Partnership that extended the Building Blocks framework to include retail services. ANCHOR promised to bring together

the planning expertise and land inventories of the City, experienced residential builders, private lenders, and national creditworthy retail tenants affiliated with the Partnership.

On the board of the Partnership was the chairman of F.W. Woolworth, whose Foot Locker chain was seen as a potential multi-project tenant for various ANCHOR developments. The Malcolm X Shabazz Mosque, whose leader, Imam Izak-El Mu'heed Pasha, held close ties not only to local merchants and residents, but also to the Giuliani administration, joined the project as its "community sponsor."⁷ The Renaissance would also serve as the re-introduction to midrise Harlem homeownership for private sector lenders, with Chase leading a syndicate of private lenders in providing a pioneering first mortgage for the project.

In practice, ANCHOR projects often stalled or were delayed due to disagreements in project viability and funding structure. As large-scale projects, ANCHOR developments often were "first-movers" in their markets, with few (if any) comparable properties to support the appraisals required of lenders. More fundamentally, the lack of comparables left project skeptics room to posit the most pessimistic scenarios and force concessions, re-analysis, and plan revisions by the project principals. If nothing else, the uncertainty caused significant delay – months and months, and then years without progress.

With high visibility as a "landmark" project in Harlem, and with a broad network of participants and funders, many of whose commitments were contingent upon the commitments of others, The Renaissance was no exception. From early negotiations in 1997, The Renaissance project proceeded in fits and starts through 1999. The success of Maple Plaza and Maple Court were cited regularly by The Renaissance's developer, the City, and the Partnership in arguing for increased levels of private-sector financing. Rental fallback scenarios were developed and refined to ensure the capital preservation of senior lenders in

⁷ Firestone, David, "A Sermon at the Mosque," *New York Times*, January 20, 1996.

case the limited equity cooperative model – still new to New York, outside of Maple Plaza and Maple Court – was unsuccessful at The Renaissance's price points. Ultimately, the project turned on the issue of credit enhancement, i.e. mortgage insurance. Private lenders, led by Chase Manhattan Bank, insisted upon credit enhancement and SONYMA, the credit enhancer of choice, required pre-leasing 50% of the retail spaces before committing to providing insurance for the project⁸. Without retail lease commitments, there would be no credit enhancement; without credit enhancement, there would be no bank loan; and without a bank loan, the project would not move forward.

Rite Aid, a national pharmacy chain, committed to 12,300 square feet in 1997, an early victory for the project. By filling unmet retail demand in Harlem (especially with North General Hospital just a few blocks north), a Rite Aid tenancy fulfilled a key programmatic goal of ANCHOR; and with a strong presence in low-income communities in New York City (including a store in the one previously-completed ANCHOR project in Brooklyn), Rite Aid provided a creditworthy, business-savvy, dependable retail tenant. However, Rite Aid's 12,300-square foot commitment was well short of the 30,000 required by SONYMA.

By February 1998, developers Stuart Suna and Jeffrey Levine had secured Petland Discounts for another 2,400 square feet, a small but important commitment that moved the project closer to fruition. However, not until Pioneer Supermarkets signed on for 20,600 square feet did the project clear its pre-leasing hurdle. Ironically, Pioneer was recruited not from among national supermarket chains, but from literally across the street, where it had operated a supermarket approximately one-third the size of its new Renaissance space.⁹

Even with SONYMA requirements met, however, private lenders remained unwilling to close on their loans. Key analyses were undertaken on the project, including the

⁸ Oser, Alan, "At Lenox and 116th, Co-ops and Stores Are Rising," *New York Times*, August 8, 1999.

⁹ Ibid.

refinement of a "rental fallback" scenario that demonstrated financial solvency in the event the project was converted to rental and conservative underwriting that brought the project's debt service coverage above 1.20x. Below-market rate HDC funds were also provided as subordinate debt. On the developer side, HPD offered a "contingent subsidy" that would be provided in the case of rental fallback or worse, if the building could not sell or rent (though this subsidy would be drawn down, if needed, in tandem with the deferred developer fee so that the cost would be shouldered equally between the City and the developer).

With all of these provisions in place, The Renaissance finally broke ground in 1999 and opened in November 2001. Approximately 4,000 applications were received for the building's 240 units (not including superintendent's unit), which would cost between \$794 and \$2,696 per month. Commercial tenants included CVS (replacing Rite Aid), Petland Discounts, Ashley Stewart, Carver Savings Bank, and Pioneer Supermarket, all of which were pre-leased and operational by December.¹⁰

The Renaissance would set three benchmarks that would be important for future projects. First, the project demonstrated that Harlem could support strong monthly rents, not only at the low sub-\$1,000/month range, but within the critical \$1,200-\$1,400/month range that would support most projects. Second, the project also demonstrated Harlem's ability to attract and sustain national retail tenants in a variety of categories, from pharmacy to apparel. Third, the project demonstrated to large banks that lending for such complex, public-private partnerships was viable and profitable. With their experience on The Renaissance, Chase and its syndicate banks (particularly Fleet), would make investments in multiple large-scale projects in the future, with many other institutions soon competing for these deals.

¹⁰ *Real Estate Weekly*, "Renaissance Plaza Opens with Harlem Celebration," November 14, 2001.

In this manner, The Renaissance was the first Harlem project to fully utilize all three aspects of the affordable housing ecosystem. First, the participation of banks through the Chase-led syndicate represented a strategy by each bank to undertake CRA-driven community development through a risk-minimized, consortium structure. The success of The Renaissance would ultimately draw Chase and other lenders out of syndicates and into their own sole originations of community development loans. Second, building on Building Blocks, the ANCHOR program represented a concerted effort by HPD and the Partnership to mobilize institutional knowledge and resources to more actively direct community development in Harlem. HPD, the Partnership, and local partners such as the Malcolm X Shabazz mosque – all of whom had previous experience together in projects such as the Shabazz Gardens Partnership New Homes, were instrumental not only in conceptualizing the program, but also in implementing and troubleshooting specific projects such as The Renaissance. Using quantitative analysis, political leverage, and interpersonal networks as necessary, these experienced project participants cleared logjams and solved problems that may have, in the past, killed a project. Lastly, the provision of free land from the City's inventory, substantial cash subsidies, below-market HDC financing, and credit enhancement through SONYMA were key pieces of the "safety net" that gave lenders and project participants more generally the confidence that capital would be protected and the project would not be allowed to fail.

5.3 THE MADISONS: A FULLY FUNCTIONAL ECOSYSTEM

The completion of the fittingly named Renaissance and its strong sales spurred an explosion of multifamily new construction in Harlem. By 2003, nine additional projects would

enter construction or be completed, and by 2005, twelve more projects would be underway.¹¹ A set of three projects along Madison Avenue between 116th and 119th Streets, Madison Park, Madison Court, and Madison Plaza – collectively, “the Madisons” – was emblematic of these new “market quality” developments.

The Madisons were part of the first round of a new HPD program, Cornerstone, that looked to build on the success of Partnership New Homes and ANCHOR. Unlike PNH and ANCHOR, however, Cornerstone’s sites were selected to maximize developer competition and thus sought to generate proposals requesting as little subsidy as possible – among other factors, such as construction quality, community programming or retail, and affordability. Cornerstone also distinguished itself as a program that was not tied to a particular funding source – the experience of The Renaissance demonstrated the value of financial flexibility as well as the increasing comfort level of commercial banks for community development lending.

The Cornerstone Round 1 developers were selected in 2000 and included the joint venture of L&M Equity and BFC Partners for the three Madison Avenue sites between 116th and 119th Streets, just a few blocks from The Renaissance and within the “Mount Morris Homeownership Zone,” a major Building Blocks focus area. L&M Equity, a development and construction firm co-founded in 1984 by Ron Moelis and Sandy Loewentheil, was active in Partnership New Homes and had developed expertise in complex public-private projects using a variety of financing sources such as Low Income Housing Tax Credits, HDC’s 100% LITE, and Historic Renovation Tax Credits. BFC Partners, founded in 1983 by Don Cappocia, had decades of experience in low-income housing development in the East Village and had been a financial supporter of Rudolf Giuliani since 1997.¹²

¹¹ NYCHPD, *Multifamily New Construction Project Information*.

¹² Lueck, Thomas, “Democrats Fault Giuliani Over Garden,” *New York Times*, February 19, 2000.

The projects selected for the Madison Avenue sites would be midrise buildings housing between 90-130 units each, with townhouses along the side streets. This pattern fit with the historical development of the area, which presented a tall streetwall along major avenues and shorter buildings along the side streets. The selection of the L&M/BFC proposals signaled an important win for urban design advocates within City government and the Partnership, who took the view that the market was “ready” for the historic Harlem archetype that seemed particularly “pioneering” to more conservative policymakers and lenders who favored the tested PNH low-rise model for the entire set of sites.¹³

Another major “pioneering” aspect of the projects was their economic structure – the midrise buildings would be standard (as opposed to limited-equity) cooperatives, priced between \$94,000 and \$376,000 and offered by lottery to households earning up to 175% or 250% of Area Median Income – effectively “market-rate” in the sense that little, if any, direct subsidy would be required to make the projects feasible. The decision to utilize a cooperative structure at market-rate prices demonstrated a new confidence in Harlem on the part of developers, the city, and lenders, spurred by the overwhelming sales success of The Renaissance and the strong macroeconomic environment.¹⁴

Madison Park, the northernmost building and the first of the three to begin construction in summer of 2001, was a 9-story, 129-unit building with a total development cost of \$29 million. The project was able to secure a construction loan from Roslyn Savings Bank, a regional bank that had worked to improve its CRA rating from “Needs to Improve” in 1998 to “Satisfactory” by 1999, in advance of a merger with Roosevelt Savings Bank and,

¹³ Syreeta McFadden, former Director of Homeownership Programs, NYCHPD, interview by the author, New York, NY, February 26, 2007.

¹⁴ Garbarine, Rachelle, “Three Co-op Buildings along Madison Avenue Reflect an Upturn in East Harlem,” *New York Times*, March 21, 2003.

later, New York Community Bank.¹⁵ Madison Park was also able to secure a \$1.5 million equity commitment from Fannie Mae, the first such investment by the GSE in New York.¹⁶ These new sources of funding were a testament not only to the increasing competition for community development lending in New York (spurred by regulation as well as profit), but also to the more data-rich environment in which lenders could evaluate potential investments. Maple Court, Maple Plaza, and The Renaissance, along with numerous successful PNH developments such as Shabazz Gardens, offered market comparables and appraisals that, for the first time, were not substantially disputed by a wide range of lenders and financial intermediaries. In conjunction with the established public-private track record of L&M and BFC and the support of the Partnership, HPD, and HDC, banks approached the Madisons and the other large-scale projects of the Cornerstone program with less caution and more optimism than in the past. With increased lender interest, Madison Park was able to complete its financing without the need for City capital subsidies.¹⁷

On the heels of Madison Park, the \$25 million, 96-unit Madison Court project closed in December 2001 and the \$22 million, 92-unit Madison Plaza closed the following summer. In 2002, Madison Park was opened for occupancy, with each of its 129 units pre-sold following an HPD-administered lottery in which 1,800 submissions were received. Similarly, Madison Court and Plaza received over 1,000 applicants and the ground-floor commercial space in the buildings was rented at double the initially anticipated rates.¹⁸ The market demand for the

¹⁵ Federal Financial Institutions Examination Council, "FFIEC Interagency CRA Ratings Search," FFIEC, <http://www.ffiec.gov/craratings/default.aspx> (accessed April 10, 2007); *Business Wire*, "Roslyn Bancorp, Inc. and T R Financial Corp. Roosevelt Savings Jointly Announce Decision to Go Forward with Merger Creating Fourth Largest Thrift in New York State," January 25, 1999; SNL Financial, "New York Community Bancorp, Inc. SEC Documents," SNL Financial, <http://www.snl.com/irweblinkx/docs.aspx?iid=1024119&start=161> (accessed April 10, 2007).

¹⁶ Naomi Bayer, Director, Fannie Mae New York Partnership Office, testimony to the Millennial Housing Commission, New York, NY, July 23, 2001.

¹⁷ NYCHPD, *Multifamily New Construction Project Information*.

¹⁸ Gabarine, March 21, 2003; Keith, Natalie, "Housing Part of Harlem Renaissance," *Real Estate Weekly*, December 18, 2002.

higher-income units was strong enough that prices for those units were increased in order to decrease the price of lower-income units, making the project affordable to a broader range of households.¹⁹

The Madisons leveraged the "fully formed" Harlem affordable housing ecosystem to draw capital and other resources. CRA motivations – either due to impending mergers (e.g. Roslyn) or the established track record of profitability of Harlem projects (e.g. Chase) – pushed private banks to establish a competitive market for community development lending. The continuing stability and expertise of HPD, the Partnership, and builders such as L&M – all of whom had worked together for the better part of a decade by 2001 – engendered trust and confidence and pulled new partners such as Roslyn Bank into affordable housing lending. Lastly, the continued use of safety mechanisms such as nominally-priced City land, HDC reserve-funded below-market debt, and the participation of Fannie Mae brought added security to the projects, which were now competitive enough not to require direct cash subsidies.

5.4 DIFFICULT TRADEOFFS: COMMUNITY DEVELOPMENT VS. GENTRIFICATION

The Madisons also represented a more controversial aspect of the "evolution" of the affordable housing ecosystem – the move up-market of projects from affordable to mixed-income, with substantial market-rate and middle-income housing. Due to New York City's high Area Median Income (AMI), which would ultimately reach \$70,900 by 2006²⁰, projects such as the Madisons could produce relatively high-priced, profitable housing that would

¹⁹ Gabarine, March 21, 2003.

²⁰ Fannie Mae, "HUD Area Median Incomes," Fannie Mae, <https://www.efanniemae.com/sf/refmaterials/hudmedinc/> (accessed May 2, 2007).

still qualify as "moderate-income" or "middle-income." Moreover, the low income nature of Harlem's census tracts allowed banks to earn CRA credit by investing in moderate- and middle-income projects within Harlem. The cooperative structure of these projects was necessarily more costly from a tenant perspective; even limited-equity cooperatives required at least a few thousand dollars more than a first-month's security deposit. Projects often sought a cross-subsidized structure where high-priced units would subsidize more affordable ones, limiting the number of actual affordable units created. In addition, whereas rental projects could be structured to maintain affordable rent levels indefinitely, homeownership structures such as traditional cooperatives were more difficult to keep affordable beyond a first generation of owners, who could purchase their units at affordable prices and, years later, sell at substantially appreciated market prices. Limited equity cooperatives were a partial solution to this affordability issue – share prices were initially set at a low level and the cooperative board often was given a contractual "right of first refusal" when owners sold their shares, the resale price of which was also often capped. However, with the explicit policy toward community stability and wealth creation through homeownership (from the policy side) and higher profitability (from the economic side), projects quickly transitioned from limited-equity cooperatives to traditional cooperatives, which possessed far fewer affordability safeguards and were often not targeted to low-income families anyway.

By the completion of The Renaissance in 2001, the gentrification of Harlem was already a hot topic. Seemingly signaling an impending wave of high-income gentrifiers, Clark Halstead, principal of major New York City brokerage Halstead Property, would declare in 2000 that "Harlem is a speculative opportunity for investors and owner-occupants who

were not interested in it until just recently."²¹ The arrival of former President Bill Clinton's office on 125th Street in 2001 in many ways marked a watershed moment in Harlem's transition, capping the arrival of national retailers such as those at the Harlem USA mall and "upmarket" (for 2001) stores such as Starbucks. For local residents, however, these new entrants served as a death knell for local businesses and the "old Harlem."²² As cited in the introduction, such "visibility" for Harlem in the broader New York market raised alarms at longstanding community groups such as Community Board 11, which would cite gentrification as a principal concern in its annual Community District Needs report and call for more third party transfers along the lines of mid-1990s projects, which were often targeted to residents at 50% AMI and below rather than 150% of AMI and above. Overlaid on the broader gentrification debate, the fact that many City-owned sites targeted for affordable housing had been converted to community gardens in the decades since they had been cleared exacerbated the tension between community groups on one side and the City and developers on the other.²³ While the City had tried to avoid developing as many garden sites as possible, by the early 2000s, most of the best non-garden sites had been developed and many of the remaining developable parcels were those with the most active community gardens. When the City moved to develop these sites through Cornerstone and other programs, mass protests and a lawsuit ensued.

Unlike the stereotypical gentrification scenario, Harlem's experience was not cleanly divided along racial lines or between old and new residents. For example, Harlem Congregations for Community Improvement (HCCI), a longstanding Harlem institution, developed over 1,000 units of Partnership New Homes and other housing in the Bradhurst

²¹ Brozan, Nadine, "Residential Real Estate," *New York Times*, January 28, 2000.

²² Hinckley, David, "Beat of 125th Street Going the Way of the Old 78s," *New York Daily News*, September 7, 2001.

²³ See Harpaz, Beth, "Gardens vs. Housing – Does NYC Have Room for Both?," *Associated Press*, May 19, 1997.

section of Harlem and would help to bring the first supermarket to the area. To do so, however, required the eviction of numerous long-tenured small businesses.²⁴ Deborah Wright offered an interesting perspective on this issue during her term as the president of the Upper Manhattan Empowerment Zone. She noted:

It is hard for African Americans to wholly embrace capitalism because we started out in the system as slaves, but the truth is it's the only thing you can count on. We've tried the legal system and we've tried the political system, and that's gotten us part of the way. But we've got a very, very long way to go... I don't see that we have much of an option but to make our peace with capitalism.²⁵

5.5 CONCLUSION

At the pinnacle of the "Second Harlem Renaissance," almost three decades of evolution and innovation at the national, state, and local levels came together to drive the development of vast numbers of housing units through a broad-based system of mutually-aligned actors. Through the combination of "push" factors driving capital into Harlem, "pull" factors building the capacity and vision of Harlem's affordable housing community, and "safety net" factors that mitigated the risks of the unknown for pioneering projects, affordable housing in Harlem evolved from low-scale, townhouse projects built by local developers and heavily shepherded by the public and civic sector to large-scale, mid-rise apartment complexes driven by competition for resources and market demand. With Partnership New Homes

²⁴ Waldman, Amy, "Despite Good Times, Business Mainstays Face Eviction," *New York Times*, August 29, 2001.

²⁵ Gosselin, Peter, "In Harlem, Crucial Test for Private Enterprise," *Boston Globe*, June 25, 1998.

having blazed a new construction trail into Harlem, Maple Court and Maple Plaza set a new benchmark for large-scale homeownership, driven by North General Hospital, a pillar of the community. The Renaissance followed, a mixed-income, mixed-use project that engaged a broad spectrum of the affordable housing community and provided not only valuable experience for those involved, but also a third large-scale property with which to measure the Harlem market. Finally, the Cornerstone program and its emblematic Madison Park, Madison Court, and Madison Plaza projects represented a new level of market and program efficiency, with experienced builders, public- and civic-sector intermediaries, and capital providers working in collaboration (and/or competition) to create financially and programmatically successful projects.

Following the Madisons – projects lauded as "downtown in uptown," referencing a level of quality not previously seen in Harlem – projects built on City-owned land would become increasingly independent of per-unit subsidy and increasingly higher-quality in amenities and finishes. By 2007, Harlem would see the construction of luxury lofts (Dwyer Warehouse) and LEED-certified green buildings (The Kalahari), mixed-income projects that would command premium prices for market-rate units while creating low- and middle-income units in the same building.

However, even while The Renaissance and the Madisons were under construction, the specter of gentrification arose in Harlem. With public-private partnerships spurring luxury developments like those cited above, gentrification became a full-blown issue dividing stakeholders in often unexpected ways – and bringing tough questions to bear on the motivations, rationale, and "success" of the Harlem affordable housing ecosystem. In the midst of rapid development and a strong economic environment, what would come up with next?

Chapter 6: Contemporary Issues

With the “push,” “pull,” and “safety” pieces coming together in the early 2000s, development of affordable housing progressed rapidly in New York City. By 2007, almost 14,000 new units of affordable housing were in the city's construction pipeline.¹ However, key factors driving the late 1990s and early 2000s boom now face dramatic changes: new financial regulations have altered CRA and continuing financial services industry consolidation have altered CRA's efficacy in various communities; New York's City-owned property inventory is soon to be depleted and the broader real estate market continues to appreciate rapidly; and Fannie Mae and Freddie Mac have grown to dominate the secondary markets and now undertake increasingly complex practices that are difficult to understand and evaluate. With these rapid changes to the financial, policy, and regulatory landscape, the Harlem affordable housing ecosystem faces obsolescence unless its components also continue to evolve. In particular, the changing financial services industry requires a more tailored approach to CRA; the changing New York City real estate market requires a new strategic affordable housing vision for Harlem and the rest of New York City; and the changing size and risk characteristics of Fannie Mae and Freddie Mac require tighter regulatory and operational supervision and a stronger mandate for facilitating affordable housing.

¹ NYC Department of Housing Preservation and Development, *Mayor Bloomberg's Affordable Housing Plan*, 1.

6.1 THE CONTINUED PUSH: THE FUTURE OF CRA

The strong “push” that CRA and HMDA gave to private lenders to enter the community development field cannot be understated. As Apgar, et al. have shown, the CRA has expanded access to mortgage capital and has induced lenders to originate more loans to low-income households and communities. CRA-regulated lenders exceed non-regulated lenders in their share of loans to minorities by as much as 20%². As CRA continues to evolve to keep up with the rapid pace of change in the financial services industry, a new set of circumstances have surfaced that challenge CRA's effectiveness: first, new disclosure rules have the potential to alter relationships between lenders and community groups; and second, the changing structure of the banking industry threatens the efficacy of CRA in smaller communities where an efficient scale of community development lending cannot be achieved.

The Gramm-Leach-Bliley Act and CRA

As detailed in Chapter 2, CRA and HMDA were originally designed to combat “red-lining” and similar practices that deprived low- and moderate-income communities of access to capital. Over time, various crises and regulatory initiatives – the S&L Crisis and FIRREA, IBBEA and market consolidation, and the 1995 CRA revisions and subsequent innovation – would ultimately result in a CRA/HMDA that incentivized community development through public-private partnerships for affordable housing. Today, CRA/HMDA faces another inflection point that may shift its focus away from housing, or may deepen its commitment. The passage of the Gramm-Leach-Bliley Act Financial Modernization Act (GLBA) in 1999

² Apgar, William, et al., *The Twenty-Fifth Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System* (Cambridge: Harvard Joint Center for Housing Studies, 2002), iv.

effectively repealed the New Deal-era Glass-Steagall Act and allowed commercial banks to expand into investment banking/securities, and vice-versa. The effects of GLBA continue to be felt, as financial services firms and insurance firms venture into each others' territories and explore mergers and acquisitions.

Importantly, GLBA required that institutions seeking to pursue such newly-legalized multi-service activities possess a CRA rating of "Satisfactory" or better.³ In addition, small banks' exams were changed to once every five years for institutions with an "Outstanding" rating, once every four years for institutions with a "satisfactory" rating, and as deemed necessary for banks with lower ratings; banks were also subject to review at the time of any mergers, branch closings, or other major regulated activity. Finally, GLBA included a "sunshine" provision mandating that all agreements between banks and community or other organizations ("nongovernmental entities or persons") toward fulfilling CRA goals be publicly disclosed.⁴ Adjustments to CRA disclosure and reporting regulations were finalized and published in January 2001.⁵

An explicit CRA rating requirement for engaging in GLBA activities aimed to increase compliance, while increased spans of time between exams for highly-rated institutions aimed to incentivize high scores and the "sunshine" provision aimed to increase public accountability. In practice, however, some regulators, lenders, and community advocates believed that GLBA would have the opposite effect. For example, San Francisco regulators believed that "Sunshine provisions will have a chilling effect on community development because [community groups] will have to show how they spend all the money that banks give them. This will weaken their bargaining position vis-à-vis lenders so they will lower

³ US Senate, "Financial Services Modernization Act," US Senate, <http://banking.senate.gov/conf/grmleach.htm> (accessed April 26, 2007).

⁴ Apgar, et al., 23.

⁵ Federal Deposit Insurance Corporation, "CRA Sunshine: Disclosure and Reporting of CRA-related Agreements," Federal Deposit Insurance Corporation, <http://www.fdic.gov/regulations/compliance/handbook/manual%20587.pdf> (accessed April 29, 2007).

their demands and promise less.” On the other hand, a community advocate in Atlanta believed that the new disclosure requirements would bring about standardization of community lending agreements, ultimately lowering the barriers for community groups to partner with banks and expanding banks' community lending activities.⁶

Ultimately, what will determine the outcome of the GLBA changes to CRA is the behavior of individual bankers, advocates, officials, and developers. In the long-term, iterative process of affordable housing construction, the active engagement of community activists, socially-minded (but profit-motivated) bankers, and influential civic leaders all play a role at various points at various times. In the Harlem experience, the strength of the relationships across the affordable housing network, and the extent to which parties interacted in good faith with one another, helped move projects forward beyond budget and policy impasses. While blow-ups and personality clashes were numerous – indeed, Kathy Wylde is alternatively loved and hated – the ultimate measure of success was the fact that for almost two decades, the same organizations continued to work with one another to develop new housing and new programs. As key individuals advanced in their own organizations or joined new ones, they leveraged their existing relationships to innovate and expand their reach. In communities where such dense networks exist in the affordable housing field, the optimistic scenarios of GLBA reform seem likely to transpire and the Harlem experience can be replicated – CRA may be that "push" that jump-starts a cycle of interactions that, over decades, can result in a robust community development system. In communities where networks are fractured and relationships antagonistic, however, GLBA may indeed have a "chilling effect" in hindering the ability of CRA to give that push.

The Harlem experience of the early 2000s seems to indicate that GLBA did not dampen CRA-related goals for New York banks; the public sector, civic groups, lenders, and

⁶ Belsky, et al., 29-30.

developers were not deterred in undertaking the complex agreements and transactions required to successfully complete projects like The Renaissance, the Madisons, and the dozens of projects that followed. However, the “exceptionalism” of New York City cannot be ignored. As Wylde notes, in 1999, New York was headquarters for more than 400 banks, two dozen of which were active originators of community development and government-assisted loans.⁷ These banks were at the time (and continue to be in their present form) some of the nation’s largest and most active in terms of strategic expansion – Chase, Fleet (now part of Bank of America), Republic (now part of HSBC), and Citibank.⁸ These national and international financial institutions had the most to lose with poor CRA reviews and the most to gain from good CRA reviews; unsurprisingly, then, all but Citibank held “Outstanding” ratings for every year since 1995 (Citibank has managed consistent “Satisfactory” ratings).⁹ Chase and Fleet, in particular, were active leaders in the New York community development field throughout the late 1990s and into the present day. Moreover, a state CRA law, an aggressive attorney general, and strong community advocacy groups made the federal CRA law particularly effective within the context of New York.

CRA in Smaller Communities

Indeed, “large banks” such as those with Manhattan headquarters came to dominate mortgage lending in the 2000s. The 12 banks that originated more than 50,000 mortgages in 2000 controlled 39% of the entire mortgage market – in 1993, only 4 banks issued that many mortgages, and together they held only 10.8% of the mortgage market.¹⁰ In smaller communities with less opportunity for community development, large banks are naturally

⁷ Wylde, 87.

⁸ CNN, “HSBC Buying Republic Bank,” CNN, <http://money.cnn.com/1999/05/10/worldbiz/hsbc/> (accessed April 15, 2007).

⁹ Federal Financial Institutions Examinations Council, “FFIEC Interagency CRA Rating Search.”

¹⁰ Apgar, et al., 15.

less inclined to undertake loans for affordable housing construction, especially if large banks are neither headquartered nor maintain branches in those communities (and thus have less "CRA credit" to gain). Moreover, GLBA revisions decreased CRA reviews for small banks with Outstanding or Satisfactory ratings to once every four or five years. For small communities with small banks, the ability of CRA to incentivize community development is thus extremely limited, especially with the increasing market share of mortgage bankers and other specialized finance companies that make the services of traditional thrifts increasingly unnecessary.

However, considering the rapid pace of bank consolidation, communities without top-tier banks within their boundaries are becoming fewer and fewer, especially as the thrift model of retail banking becomes increasingly obsolete. The Federal Reserve Board of New York, in its evaluation of CRA at its twenty-fifth anniversary, suggests that future revisions to CRA ought to re-emphasize its "branch banking focus," steering the statute back to its roots in fostering investment by banks in the communities in which they operate. As the FRBNY notes, "retail banking services and community development lending arguably remain most closely linked to the branch banking mechanism... reform could therefore reposition the [CRA] to give greater emphasis to providing financial services to lower income people and to promoting the development of lower income communities."¹¹

A branch banking-focused CRA would in many ways dovetail perfectly with the banking industry's current structure of diversified financial services. At its core, CRA is focused on bank service delivery – not merely community development lending, but also (indeed, primarily) mortgages, deposit accounts, and small business lending. As large banks promote their abilities to be "one-stop shops" for financial services, community development lending becomes a key catalyst of many other profitable financial services. The goodwill and

¹¹ Apgar and Duda, 3.

publicity generated by community development projects by themselves can lead to increased business; but the community development lending process also naturally lends itself to cross-selling. For many Harlem homeownership projects, for example, the construction lender also gave homebuyer seminars, which resulted in the origination of numerous mortgages, and which in turn resulted in the opening of numerous deposit accounts. To the extent that CRA can push banks to offer any one of these services in the communities in which they operate, industry dynamics naturally push banks to offer all services, including community development lending.

6.2 A NEW PULL: THE NEXT TEN YEAR PLAN

As Schill et al. note, the “Ten Year Plan” that lasted closer to fifteen years not only created or rehabilitated 180,000 new housing units in some of New York’s most under-served neighborhoods, but also initiated “spillover” effects that increased property values in the vicinity of these public-private projects.¹² In addition, as noted in Chapter 3, the consistent production of housing allowed the development of individual and institutional expertise as well as cross-sector relationships that would continue over time, producing greater cooperation, efficiency, and innovation.

In a perfect world, the incremental improvements that New York’s affordable housing community has achieved over the past two decades would continue unabated, finding creative new approaches and programs to create housing in evolving market conditions. However, the new construction programs of the “Ten Year Plan” – Partnership New Homes,

¹² Schill, Michael et al., “Revitalizing Inner City Neighborhoods: New York City’s Ten Year Plan,” *Housing Policy Debate* 13, no. 3 (2002): 529-566.

ANCHOR, Cornerstone, and their successors – ultimately relied on two key catalysts that are nearing depletion: vacant, City-owned developable parcels and low-cost privately-held properties.

New York's stock of City-owned, properties dwindled 95% since 1994 to only 2,400 units by mid-2005, and substantially all the remaining tax-foreclosed City-owned properties were offered for development via RFP in August 2005.¹³ Compounding the disappearance of "free land" as a source of embedded subsidy is the continuing strength of the real estate market in Harlem and other [previously] low-income minority communities. From the rampant abandonment of the early 1990s – effectively negative value – Harlem home values soared to a consensus average of \$600 per square foot in 2006, with derelict brownstone "shells" "hard to find" for \$800,000.¹⁴ The construction of affordable housing in this context is consequently difficult if not impossible without substantial public-sector support.

Viewed from another perspective, the targeted success of Building Blocks has run its course: many low-income and minority neighborhoods in Harlem have recovered from the drugs, crime, and abandonment issues of the 1980s and now face issues of displacement and gentrification. As former HPD Assistant Commissioner James Lima has noted, the Building Blocks programs utilized complex public-private partnerships only out of necessity – City funds were aimed to catalyze private sector investment as distinctly market-based interventions that were not intended to continue for the long term.¹⁵ While the idea of completely divesting 44,000 City-owned housing units seemed a distant goal in 1994, the broad mission to revitalize low-income minority communities block-by-block was a shared goal across the New York affordable housing community. Members of the public sector

¹³ NYC Department of Housing Preservation and Development, "Housing Commissioner Details Progress on Mayor's Housing Plan," Press Release, October 18, 2005.

¹⁴ Dehnke-Gill, Melissa, "Harlem Adjusts to Post-boom Housing Market," *The Real Deal*, August 2006.

¹⁵ James Lima, former HPD Assistant Commissioner and former Senior Director, Avalon Bay Communities, interview by the author, New York, NY, April 27, 2007.

aimed to shoulder the financial risk of early projects as “proofs of concept,” stepping aside to allow private capital investment in future projects. Building Blocks can thus be considered a victim of its own success; with the withdrawal of public financial subsidies and, ultimately, public land “subsidies,” the private-market takeover is complete and market rules now prevail.

What is next for Harlem? Is the community doomed to gentrification, cursed by its location on the island of Manhattan? In the face of decreasing affordability across New York, Mayor Bloomberg announced “The New Housing Marketplace” plan in 2004, a \$7.5 billion program to create or preserve 165,000 affordable housing units by 2013. An equally ambitious follow-up to the Koch Ten Year Plan, The New Housing Marketplace sought housing for half a million people through four primary strategies: 1) finding new land for affordable housing; 2) creating incentives to house new populations; 3) creating new incentives to harness the private sector; and 4) preserving government-assisted housing.¹⁶

Finding New Land for Affordable Housing

Recognizing the depletion of City-owned tax-foreclosed property, The New Housing Marketplace seeks to utilize non-traditional City-owned properties for housing development. Some examples include obsolete school buildings owned by the Board of Education; parking lots owned by the Department of Transportation; and closed hospitals owned by the Health and Hospitals Corporation. In addition, the plan seeks to harness the expertise and influence of the Partnership for a new initiative: a land bank funded by both public and private sources that could be used to strategically acquire land and buildings for affordable housing.

¹⁶ NYC Department of Housing Preservation and Development, *The New Housing Marketplace: Creating Housing for the Next Generation* (New York: NYC Department of Housing Preservation and Development, 2005), 4.

Incentives to House New Populations

In addition to low-income housing, The New Housing Marketplace also seeks to develop middle-income housing and supportive housing. To develop middle-income housing, the City seeks to capitalize on HDC's underwriting capabilities and strong bond rating to expand bond financing beyond "volume cap" to include 501(c)3 and municipal private-activity bonds to finance affordable housing. The plan will also earmark Battery Park City PILOT contributions to create a Housing Trust Fund of \$70 million to subsidize new housing programs in tandem with existing HPD and HDC programs. Lastly, a program called New York/New York III, a partnership between the City and State of New York, will provide \$1 billion in capital funding for the creation of 12,000 new units of supportive housing in New York, increasing the existing supply by over 50%. For these programs, The New Housing Marketplace extends frameworks originally developed as part of the Ten Year Plan -- extending public-private partnerships, especially civic participation through the NYC Partnership; encouraging continued financial innovation, particularly through HDC; and continuing to utilize City resources, such as publicly-owned resources and City regulatory frameworks, to foster new housing development.

New Incentives for Private Sector Development

Adding to the "safety net" role of HDC and Fannie Mae and Freddie Mac, The New Housing Marketplace includes the development of the New York City Acquisition Fund, a \$40 million guarantee pool leveraging \$160 million in private financing on a revolving basis. The guarantee pool, financed by the City (\$8 million) and private foundations (\$32 million), will back-stop the first 25% of senior debt on any given project, substantially decreasing the risk exposure of loans made by private developers for affordable housing. In this way, the

Acquisition Fund will serve the same purpose for senior private loans as REMIC and SONYMA serve for bond issuances.

More broadly, The New Housing Marketplace also seeks to change zoning and local laws to facilitate affordable housing construction. First, changes to the City's 421-a program will seek to increase affordable housing in gentrifying areas by mandating that affordable units developed under the program be "on site" rather than in a separate (often far away) location. Second, inclusionary zoning districts, once found only in the densest parts of Manhattan, have been expanded to other areas across the city. In these areas, greater density will be allowed in exchange for the creation of affordable housing, in effect "dedicating a portion of the market value created by the rezoning and directing it toward affordable housing."¹⁷ Importantly, inclusionary zoning for affordable housing works best in strong markets with rising housing values – like New York – where the incentive to utilize the density "bonus" and thus build affordable housing increases as the value of property increases.

Preserving Government-assisted Housing

A number of projects built under the Mitchell-Lama and the Low Income Housing Tax Credit programs are "expiring" – the term of their government-sponsored mortgages and/or tax credits is expiring, and thus the legal mechanisms mandating their affordability are also expiring. The New Housing Marketplace seeks to replace these expiring subsidies with volume cap bonds, negotiated capital subsidies, or "roll-over" of tax credits (i.e. refinancing expiring credits with new credits). As Partnership New Homes and certain ANCHOR and Cornerstone developments will also face this issue of expiring affordability in the coming decades, the success or evolution of these preservation initiatives will be critical to

¹⁷ Ibid., 12.

preserving the affordability of the projects built in the late 1990s and early 2000s. Indeed, early PNH projects have already been "lost" as skyrocketing home values allowed owners to sell or refinance at such a high price that substantial profits were achieved even after the payback of non-evaporated subordinate City subsidy. With "roll-over" of tax-credit properties a limited and zero-sum activity, and with strong social and political outcries regarding housing affordability across New York, preserving the affordability of recently-built and future units is a critical concern. The recent sale of Stuyvesant Town, a mixed-income, privately-owned community in the East Village, and the proposed sale of Starrett City, a mixed-income, government-subsidized development in Brooklyn, made headlines, sparked protests, and put elected officials on the spot. Provisions for long-term affordability will likely be one of the most important issues for the next iteration of the affordable housing ecosystem to resolve.

With these initiatives, the Bloomberg administration has sought to expand and empower the "pull" and "safety net" mechanisms of the New York affordable housing network and its financial intermediaries. The New Housing Marketplace lays a new vision that, like the Ten Year Plan and Building Blocks, builds on past successes and draws on the expertise of the numerous accomplished professionals to face the new challenges facing affordable housing development.

6.3 A TIGHTER SAFETY NET: THE FUTURE OF FANNIE MAE AND FREDDIE MAC

Fannie and Freddie have grown from marginal, specialized financial firms into substantial players in the American – and thus global – capital markets. Their unique role as

"government sponsored" entities has distorted market forces around them and has led to what many perceive as overly-risky behavior. Given the trillion-dollar holdings of the GSEs, a financial crisis affecting one or both of the GSEs would be as devastating, or more, than the S&L crisis of the 1980s. The risk of this possibility has pushed Congress to look to regulate the GSEs with a set of tools mirroring FIRREA-mandated regulations of the private lending industry. These regulations would not only improve financial standards, but also, like CRA, strengthen the mandate for investment in low-income minority communities.

In the last decade, Fannie Mae and Freddie Mac have achieved a "dominant" presence in the mortgage market and a substantial role in public debt and derivatives markets (where, for example, derivatives based on Fannie and Freddie securities fueled the rise of legendary hedge funds such as Long Term Capital Management). From 1993 to 2003, the investment portfolios of the two GSEs increased from \$135 billion to \$1.56 trillion, while their share of outstanding mortgages held increased from less than 5% to over 20%. In 2005 alone, the two firms issued over \$3 trillion of debt to finance their investments, and together they hold \$5.2 trillion in debt and MBS obligations outstanding, an amount exceeding the \$4.9 trillion in publicly held debt (Treasuries) issued by the United States government itself.¹⁸

As Fed Chairman Ben Bernanke has noted, two conditions are common in financial crises: first, they involve financial institutions or markets that are very large and/or play critical roles in the financial system; and second, their origins (outside of natural disaster, war, etc.) can be traced to "failures of due diligence or 'market discipline' by an important group of market participants."¹⁹ Fannie and Freddie certainly pass the first criterion. And as the GSEs have grown, their investors have passed the second criterion. Though Fannie and Freddie have been private, non-governmental entities since the late 1960s and early 1970s,

¹⁸ Ben Bernanke, Chairman, Federal Reserve, remarks at the Independent Community Bankers of America National Convention, Honolulu, HI, March 6, 2007.

¹⁹ Ibid.

the GSEs are widely believed to hold an implicit government guarantee – by virtue of their the sheer size ("Too Big to Fail") and public goals and relationships, investors have believed that the Federal government would step in to "rescue" the organizations in the event of financial distress.

Consequently, critics have charged that investors in the GSEs – particularly debt holders – undertake risky behavior beyond what "market discipline" would dictate and thus erode the decision-making capabilities of the GSE management teams. Evidence for this behavior lies in the low cost of capital that Fannie and Freddie are provided in debt markets, a "narrow spread" above Treasury rates and far below the rate charged to major bank holding companies. Given the complex nature of GSE's business models and investment strategies, a reasonable risk-adjusted rate of return demanded by investors ought to more closely resemble rates charged to major private financial firms rather than the "riskless" debt of the U.S. Treasury. Bernanke and others market observers attribute this discrepancy to the idea of the implicit GSE government guarantee, which if real would reduce the risk of the GSEs to a level commensurate with their low cost of debt. This low cost of debt offers a lower "hurdle" for GSE investments and, insofar as the debt is "fixed" at a nominal rate over Treasuries, mutes the ability of market rates to signal approval or disapproval of management behavior.²⁰

Indeed, evidence of management impropriety at Fannie Mae and Freddie Mac can be found in the various scandals arising from the GSEs in the mid-2000s. In 2004, a \$10.8 billion accounting discrepancy caused Fannie Mae to issue numerous earnings restatements. An inquiry by the Office of Federal Housing Enterprise Oversight found extensive accounting errors and the scandal ultimately resulted in the resignation of the Fannie Mae chief executive. Similarly, a 2003 internal accounting scandal claimed the jobs of Freddie Mac's

²⁰ Ibid.

chief executive officer, chief financial officer, and chief operating officer.²¹ Both GSEs have also been criticized for their large executive compensation packages and extensive lobbying and public relations organizations, which have since been downsized following public outcry in 2005 and 2006.²²

In response to these issues, Congress has begun the process of strengthening federal oversight of the GSEs, effectively creating a regulatory structure mirroring that which oversees private lenders, complete with CRA-type mandates. In March 2007, the House Financial Services Committee passed the Federal Housing Finance Reform Act, a bill introduced by Rep. Barney Frank that seeks to establish a new GSE regulator, the Federal Housing Finance Agency (FHFA), that would hold broad powers to mandate management, capital requirements, governance, underwriting standards, and mission goals – namely, the creation of affordable housing and the purchasing of affordable housing mortgages – for the GSEs. The bill also creates a corrections and enforcement process to police these regulations. In addition, the bill seeks to create an Affordable Housing Fund, paid by a 1.2 basis point (0.012%) fee on mortgages held or securitized by the GSEs, that would directly subsidize housing and related programs for very low- and extremely low-income families. Last but not least, the bill eliminates the Presidential appointments to the GSE boards of directors, cutting a key remaining link between the Federal government and the GSEs.²³

In the Senate, four Republican Senators introduced a bill in April 2007 that would largely sidestep the need for expanded program structure by limiting GSE investments to affordable housing-related investments only, a strict mandate consistent with the broad recommendation by Fed Chairman Bernanke to re-align the GSEs with their original public

²¹ Clark, Kim, "Cracks in the Foundation: Scandal at Freddie Mac Could Tighten Controls on the Mortgage Giants," *U.S. News and World Report*, June 15, 2003.

²² Crea, Joe, "Fannie Mae Balks at Piece in Housing Bill," *Fulton County Daily Report*, March 28, 2007.

²³ *U.S. Fed News*, "Financial Services Committee Passes Government Sponsored Enterprises Reform Bill," March 29, 2007.

mission. While Democrats oppose such tight constraints in favor of stronger oversight and the creation of an affordable housing fund as outlined in the House bill, the consensus in both parties seems to favor finding the means to rein in the risk of the GSEs and to re-direct them toward a public benefit goal.²⁴

As such, the next phase in the evolution of Fannie Mae and Freddie Mac may be to strengthen their ability to act as a "safety net" by expanding their affordable housing mortgage purchases and direct investment contributions. As the CRA pushed private lenders into low-income minority communities, so too might new regulation push the GSEs into a more active role in the creation of affordable housing. Whatever form a new GSE regulator and its programming takes, the increased financial security and more explicit orientation toward affordable housing that will likely result will be a boon for affordable housing and community development across the country. A more disciplined and focused Fannie and Freddie will have the capacity to expand the liquidity of low-income and community development lending for private lenders, which will drive down costs and spur increased investment for low-income and minority communities.

6.4 CONCLUSION

An updated CRA, the continuing innovation of local policymakers and practitioners, and a reformed set of GSEs together form the next iteration of the affordable housing ecosystem that drove Harlem's development in the early 2000s. Re-tooled and re-focused for contemporary challenges, this network holds the promise of continuing to advance affordable

²⁴ Paletta, Damian, "Senate Bill Ties GSE Portfolios to Affordable Housing," *Dow Jones Newswires*, April 12, 2007.

housing not only in neighborhoods such as Harlem, but in communities large and small across the nation.

Chapter 7: The Lessons of the Harlem Experience

What are the lessons of the Harlem experience? For the affordable housing community, one big-picture theme emerges: financial, political, and social capital are deeply intertwined and financial capital in particular can be leveraged by political and social capital. However, doing so requires a broad-based effort that may or may not be explicitly coordinated. Major affordable housing systems also take time – decades – to form. The formation of such systems over such long periods of time must necessarily result from incremental adjustments to account for local conditions and unforeseen opportunities and problems.

For affordable housing practitioners, specific lessons also emerge. First, the Harlem experience shows that legislatures can use regulation and law as effectively, or more so, than cash subsidies to encourage the development of affordable housing. For example, CRA has driven billions of private-sector dollars to development in communities such as Harlem, and GSE regulation offers the promise to do the same. Second, the experience of intermediaries such as HDC shows that the expertise and experience in developing a strong credit rating and obtaining credit support are keys to putting together the often complicated financial packages required for new affordable housing construction. These lessons can be applied by other HFAs across the country to develop their own ratings and capacity. Third, the broad and deep network of multi-talented actors in Harlem demonstrate the value, from a career perspective, of developing multiple skill sets and broadening knowledge beyond functional "silos" such as planning, finance, and design. Kathy Wylde, Deborah Wright, and other key figures in the Harlem experience have set a standard for broad and deep competencies that may increasingly become a prerequisite for professional success in community development.

Is the experience replicable? Certainly some aspects of the Harlem experience were specific to time and place, e.g. the late-1990s economy and the concentration of bank headquarters in New York. However, other aspects are replicable though perhaps difficult to do so: strong professional networks, a long-term planning strategy, and the establishment of cross-sector partnerships and information sharing. Just as the Harlem experience embodied specific tradeoffs, however, so too will other communities have to determine their own priorities and act upon them in the face of opposition and debate.

7.1 BROAD LESSONS FOR AFFORDABLE HOUSING

The Harlem experience is not merely about specific policy tools and programs, but more broadly about the leveraging of social and political capital for financial capital by savvy individuals and organizations. This process possessed three notable attributes: it was broad-based; it took considerable time; and it was incremental and largely unplanned.

First, Harlem's transformation was broad-based: numerous vigilant and determined advocates capitalized on opportunities at the federal, state, and local level to shape policies and programs that may have seemed only tangentially related to affordable housing, but which would ultimately provide a critical foundation for the development of large-scale projects in communities like Harlem. Sometimes advocates worked in concert, as at the local level partnerships between public sector, civic, local, and private-sector organizations that fueled the Partnership New Homes and other programs. Other times, advocates worked roughly independently toward similar goals, as with the CRA-focused community organizing and investigative journalism of the early 1990s that increased publicity about the previously arcane topic, resulted in regulatory action and lawsuits, and fundamentally altered the

business strategies of the nation's banks. Advocates fought for small wins across a wide spectrum of fields for individual construction programs like Neighborhood Builder, financing programs like HDC's 100% LITE, and regulatory actions like making CRA data publicly available. These changes allowed additional actions to be taken, lessons to be learned, and a broader and deeper knowledge base for the next round of action.

Second, these efforts also took time – over two decades and perhaps closer to three. The learning curve was steep for intricate policies involving bank regulation, transforming local general contractors into housing developers, and understanding credit risk in construction, among the many other competencies that were strengthened. Often times, knowledge required experience, so when little work was completed, little innovation was achieved. Limited merger activity by banks led to the effective marginalization of CRA legislation in the 1980s; few large scale projects meant little need for comprehensive planning policy or credit enhancement strategies in the early 1990s. However, sensing catalysts for change, advocates capitalized on opportunities when they arose. Thus, the Madisons followed quickly on the heels of The Renaissance, which itself followed Maple Court and Maple Plaza.

Third, the evolution of housing finance and development from the 1980s to the present was incremental and largely unplanned. There was no "magic bullet" or single action that jumpstarted housing development on its own. Rather, numerous lines of innovation – in this thesis, organized into three broad categories of "push" factors, "pull" factors, and "safety net" factors – intertwined in ways that built on past experiences to set up future success. As regularly noted, affordable housing programs and policies were often ancillary components of broader measures not directly focused on affordable housing (e.g. FIRREA or the current push for GSE regulation). In an opportunistic, emergent strategy, key individuals and organizations worked to achieve program goals and then, working with colleagues across

other fields, stitched them together with other programs to create robust, sustained efforts for building affordable housing. For affordable housing practitioners, the Harlem experience demonstrates the importance of taking stock of incremental improvements from individual projects and programs. These individual initiatives may contain key aspects that practitioners should systematically identify and cultivate toward the establishment of an affordable housing production ecosystem.

Social capital is often discussed at the grassroots and community level, but the ties that unite individuals in a common cause also operate at the level of program managers, policy makers, developers, and financiers. Networks for knowledge building and sharing are essential to creating the broad policy and financial systems that push, pull, and support affordable housing initiatives. For Harlem, these systems took decades to form and unite, but in the end, provided the framework that would kick-start large-scale affordable housing development after an almost thirty year hiatus.

7.2 SPECIFIC LESSONS FOR PRACTITIONERS

The Harlem experience also provides more concrete lessons for those involved in affordable housing production. For individuals in policy as well as for those in finance, Harlem's affordable housing production ecosystem offers examples of specific interventions with specific results. For all affordable housing practitioners, the Harlem experience demonstrates how individuals with diverse experiences from multiple perspectives can excel and lead in developing innovative solutions to complex problems.

At the legislative level, the Harlem experience demonstrates that regulation is as effective a tool in "moving the market" as is direct subsidy. As described in Chapter 2, CRA

underwent numerous changes that, over time, pushed the lending industry to make major investments in low- and moderate-income communities such as Harlem, forming a key part of the affordable housing production ecosystem. The potential for a similarly powerful incentive directed toward Fannie Mae and Freddie Mac seems to be driving the current push for GSE regulation by Congress. However, these lessons are also being applied at the local level, with inclusionary zoning, linkage regulations, and property tax reforms providing a stronger push for affordable housing development.

Similarly, for affordable housing financiers, the importance of a strong credit rating and/or credit support has proven key to securing financing and investors. This lesson drove HDC to create its own in-house insurer, REMIC, and may serve as an impetus for other state and local HFAs to seek steps to improve their credit ratings. At the same time, HDC's success may spur HFAs with strong credit to develop the capacity to more aggressively leverage their strong ratings for favorable-rate financing of affordable housing. In 2004, eight HFAs held S&P ratings of AA – equivalent to HDCs – and one, West Virginia, held a AAA rating, the highest possible rating.¹ These states could potentially utilize the market power of their strong credit ratings to develop products that pass through the favorable pricing for their bonds to affordable housing developers, as HDC has done. However, if these HFAs' strong credit ratings are the product of their conservative strategies, more substantial changes in business strategy and culture may be required to achieve stronger results.

More broadly, the Harlem experience demonstrates the value of multiple perspectives and experiences in the long-term, "multi-round" interactions of the entire network of affordable housing actors "from dirt to dollars." As a local affordable housing practitioner, the experiences of leaders such as Deborah Wright demonstrate the benefit of a functionally-

¹ Fitzgerald, Karen, "Housing Finance Agency Financial Ratios," *Standard & Poor's Ratings Direct*, October 7, 2004.

nimble, multi-faceted career spanning various competencies and professional networks. The Harlem experience was largely driven not by career bureaucrats, but by dedicated individuals who built up skills in one organization and brought those skills and networks to help other organizations innovate and grow. As other examples: Kathy Wylde of the Partnership began her career as a banker in Brooklyn; developer Ron Moelis was trained as a lawyer and is a member of the NY bar; Mark Willis of Chase was an Assistant Commissioner at HPD; Shawn Donovan, the current HPD Commissioner, previously worked at Prudential and, before that, was in academia; the list goes on. By the early 2000s, many senior leaders in the Harlem affordable housing world had held government, for-profit, and non-profit positions at various points in their careers and would use these diverse experiences to inform their current work.

7.3 REPLICATING THE HARLEM EXPERIENCE

Is the Harlem experience replicable? Certainly many time- and place-specific factors constrain the ecosystem's generalizability: the concentration of CRA-regulated banks in New York; the long-term national economic expansion of the late 1990s; and the scale of the Harlem market (Harlem has a population only slightly smaller than the city of Boston) and its affordable housing institutions, to name a few. However, other factors perhaps may be difficult to muster but are not unique or impossible: for example, strong local leadership; a long-term public-sector planning strategy; and the participation of talented and experienced actors willing to share information and lessons gained over time.

While these factors are not unique or impossible, they do admittedly take a long time to cultivate and implement. In the case of Harlem, the emergent affordable housing strategy

was formed over four different mayoral administrations, each with its own unique emphasis within the framework of affordable housing – Koch presenting an ambitious large-scale plan; Dinkins stressing local control and empowerment; Giuliani seeking to rebuild the property tax base; and Bloomberg seeking to extend the lessons of all three previous administrations within the context of a fiscally strong, vibrant, and growing city. Other cities seeking to replicate Harlem's success may do well to focus not on specific policies and programs, but on the resilience and adaptability of the programs and the people driving them.

What kept Harlem's key individual actors active and in place through all these changes? Is there any factor beyond their own convictions? Ultimately, a key force keeping Harlem's advocates involved may have been the multiple opportunities for advancement within the New York affordable housing field. The multiple public, private, and non-profit institutions seeking talent and providing opportunities for tangible success and "a new perspective" represent a self-contained yet broad set of career paths for a large number of individuals with diverse interests. This aspect of the Harlem experience may be the most difficult to replicate in other cities.

However, the strong strategic framework of the Ten Year Plan and Building Blocks was a critical "skeleton" on which other pieces of the Harlem ecosystem were built. As a first step, other cities could focus on the public participation and advocacy initiatives and capacity-building to make affordable housing a priority, as in 1980s (or mid-2000s) New York. Strong local leaders, while not the focus of this thesis, were undoubtedly the lynchpin of the Harlem experience and the critical driving force of its various initiatives.

A strong framework will draw strong actors, and in time, these actors could build a set of successful projects that would themselves continue to cultivate an affordable housing ecosystem. While such a system would hopefully draw committed, long-term participants, these might not be necessary. In an increasingly global capital market, there is no reason

why key actors must be "local," in the private and non-profit sector at least. Bank of America, Citigroup, and JP Morgan Chase – as well as Fannie Mae, Freddie Mac, LISC, and Enterprise – have developed expertise across the nation (and the world) and should be encouraged to bring their knowledge to bear in smaller contexts, especially those low- and moderate-income communities where, as Harlem has shown, competitors are few and profit is achievable. Insofar as these organizations are themselves staffed by individuals with individual experiences and networks, their national- and international-level focus could be as much a positive as a negative. Coupled with strong local community leaders, nationally-experienced private- and non-profit-sector organizations willing to commit to learning about and participating in the growth of a community could provide a wealth of knowledge and experience for nascent programs and ultimately serve as key pieces of an affordable housing ecosystem.

Even if the Harlem experience were replicable, would other cities want to replicate it? The tradeoffs of the Harlem system – viability versus impact, short-term versus long-term affordability, ownership versus rental, middle-income versus low-income – represent explicit policies toward explicit ends that were not agreeable to and not in the interest of all stakeholders. While participants in the Harlem ecosystem advocated these particular choices, other advocates in other communities will ultimately have to determine their own priorities – and live with the consequences.

7.4 CONCLUSION

The Harlem affordable housing production ecosystem of the late 1990s and early 2000s was a triumph of the possible over the perfect, the product of experience and skill in creating

and taking advantage of opportunities across the political, social, and economic spectrum. Through the efforts of devoted advocates, policy makers, civic leaders, financiers, and developers over two decades, Harlem was able to re-construct an affordable housing delivery system that was, in many ways, superior to the federally-sustained system of the mid-20th century that it replaced. Looking ahead, however, new challenges await new solutions.

The Harlem experience was in many ways a unique development in a unique time and place. However, in many ways, the Harlem experience was a demonstration of what can be achieved when dedicated individuals broadly understand each other's perspectives and accordingly align their interests toward a common goal. Viewed from a financial risk and return perspective, the Harlem affordable housing ecosystem minimized risk and maximized return potential through a combination of push, pull, and safety net factors that brought private capital to the table and ultimately allowed planners, advocates, and developers to realize a shared vision. In Harlem, dedicated actors with multiple areas of expertise collectively combined a deep knowledge of housing and neighborhoods with a nuanced and sophisticated understanding of finance to produce a system to create thousands of units of new affordable housing. This system embodied certain tradeoffs that were not without controversy, however; other communities looking to create similar affordable housing ecosystems should be prepared not only to create a long-term strategy and recruit experienced actors, but also to seek consensus (and face ongoing debate) on their unique housing priorities. While each of these is a difficult and long-term task, they are all critical to organizing and implementing an affordable housing ecosystem that may ultimately provide substantial long-term benefit.

Indeed, the Harlem affordable housing production ecosystem provides numerous lessons for community development in general and affordable housing practitioners in particular. The creation of such a system requires efforts across a broad range of issues,

takes a long time, and is driven by circumstances, chance, and opportunities that often cannot be foreseen. Practitioners must be aware of the power of political, social, and financial tools, and seek to identify, cultivate, and leverage them in a systematic way.

As the saying goes, "New York, New York... if I can make it there, I'll make it anywhere." With luck – and skill, dedication, and teamwork – this may just prove true for affordable housing.

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