



Access to Capital:
**Strong Organizations = Successful
Projects**

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“It’s human nature, if you get turned down, to go around saying there are no loans available.”

- Sherril Stockton
Exec VP, Sterling Savings Bank

ACCESS TO CAPITAL

Two Ideas:

- Funders know what they want in sponsor organizations they partner with.
- Agencies that understand these organizational criteria are more likely to gain project financing approvals.

Capacity:

- An organization has the experience and resources needed to secure financing and complete all phases of a project.

Organizational Capacity

- Fundability
- Creditworthiness
- Sponsor Capacity
- Credit Risk
- Housing-Readiness

Purpose of the Project:

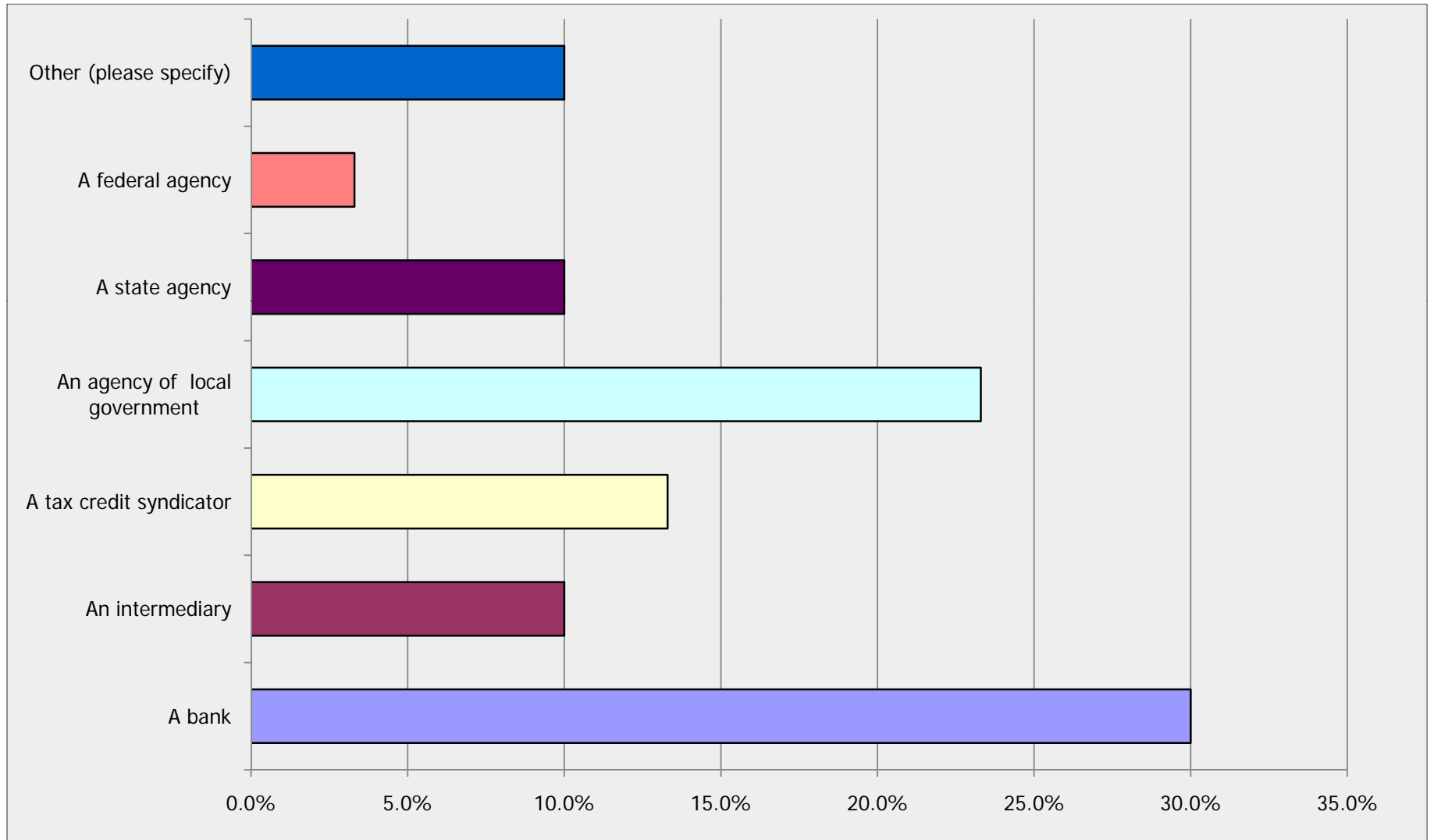
1. Determine funder preferences and standards for organizations that they fund.
2. Work with agencies to build capacity, improve “access to capital” and develop housing.

Presentation Outline:

1. Confirm the importance of capacity to funders
2. Examine specific funder preferences & standards
3. Identify Strategies that can “mitigate” a lack of capacity.
4. Hear about the nonprofit agency’s perspective on these capacity questions.
5. Discuss system-level strategies that can increase capacity & creditworthiness.

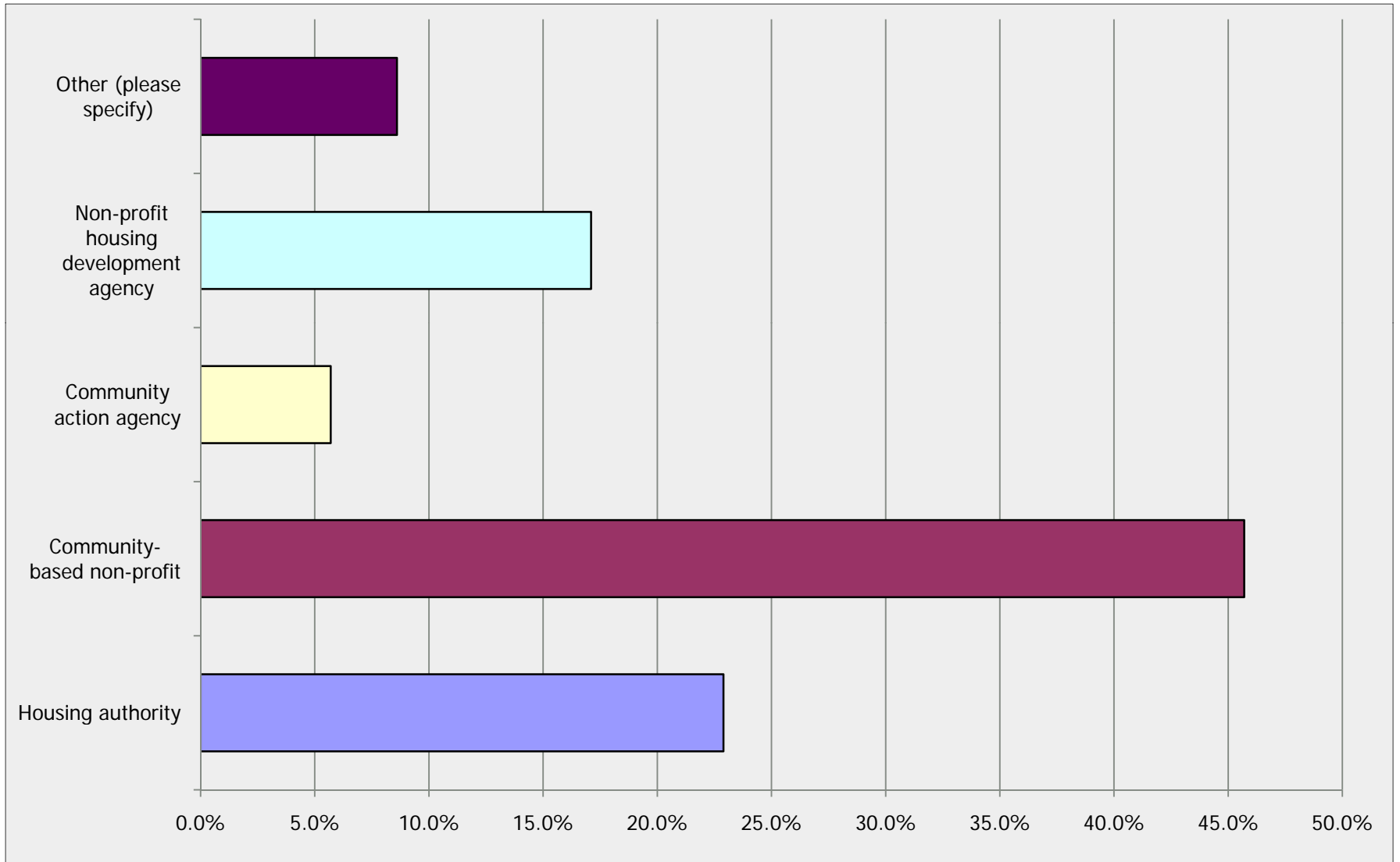
Funder Survey

Type of Organization:



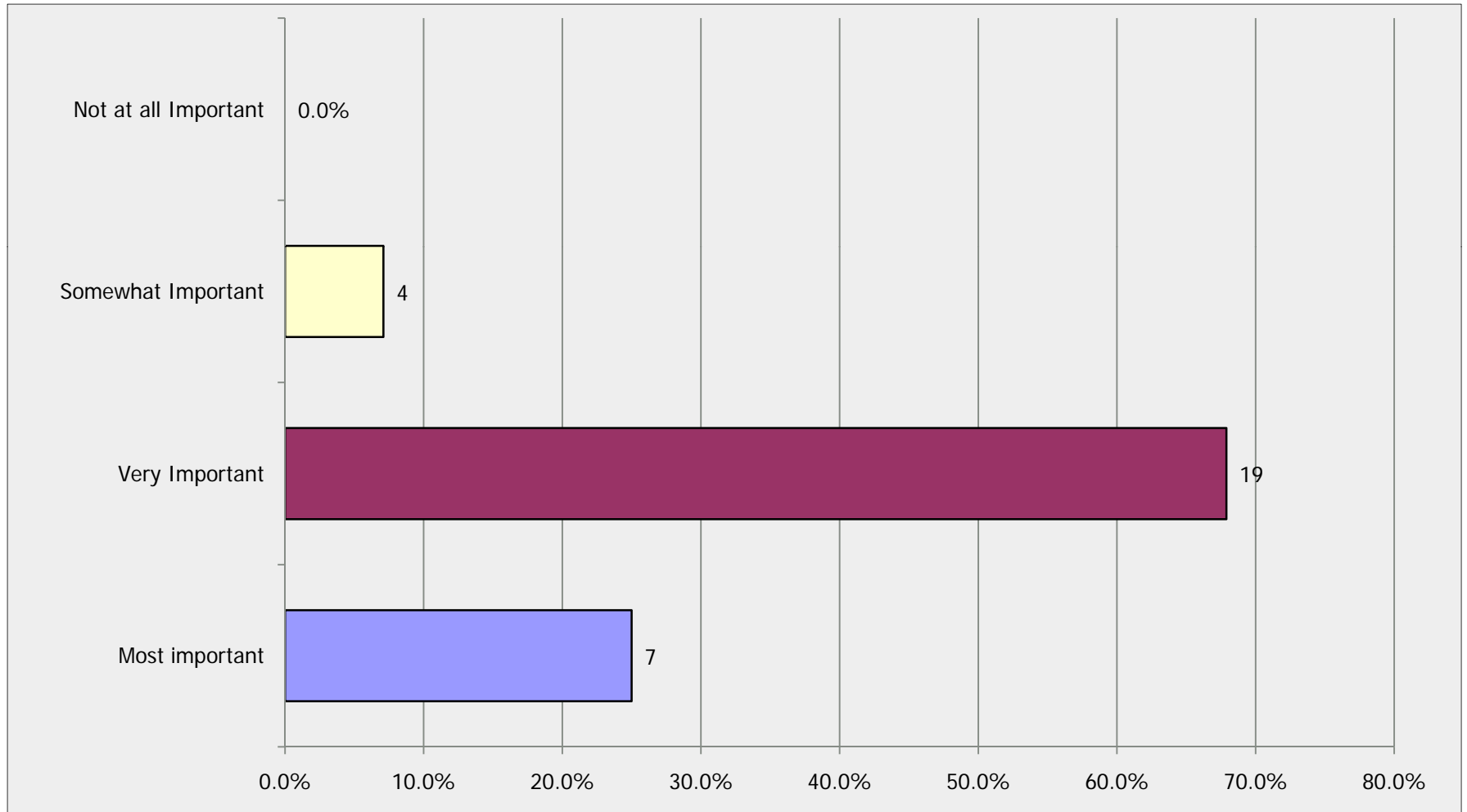
Agency Survey

Which of the following best describes your organization:



Funders on Capacity:

When your organization underwrites a project, how important is the capacity of the sponsoring organization – relative to all other project underwriting criteria?



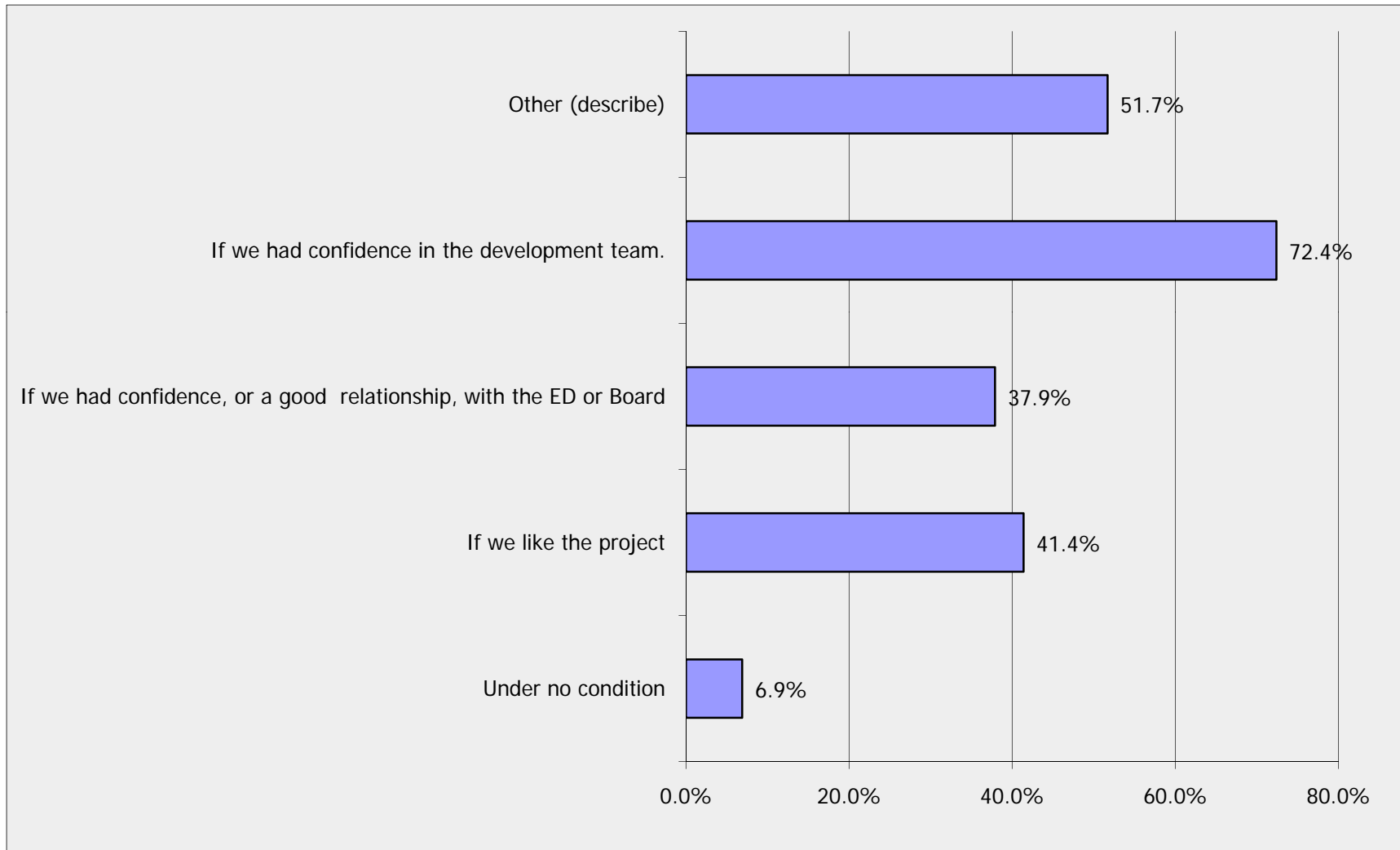
Funders on Capacity

Funder Comments:

- “In my opinion there is no risk mitigant for lack of capacity, and since the delivery of tax credits is time sensitive and poses one of the greatest risks (completion risk) in our industry, this point is difficult, if not impossible to get past.”
- “Sponsor experience at doing similar projects is my most important criteria.”
- “Would say MOST important, except that there are ways to mitigate capacity shortfalls, more difficult in 09 than 07.”

Funders on Capacity:

Under what conditions would you commit project funds to an organization working on its first housing project?

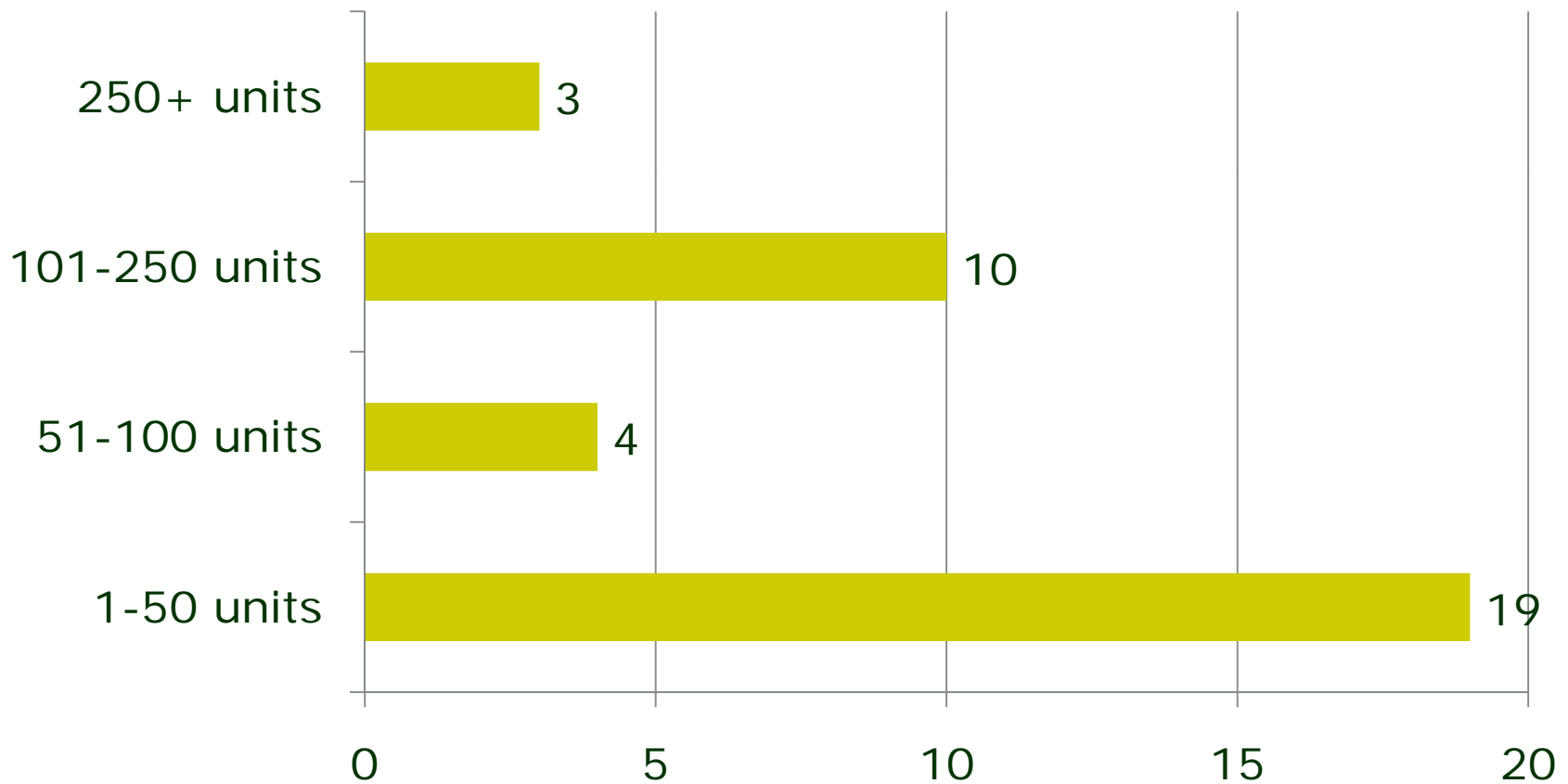


Funders on Capacity

- “If they were to partner with existing agency that had experience.”
- “We would need all of the above and if the project required tax credits, we would have to see that the organization was partnering with an agency with track record with investors.”
- “MAYBE! Usually not.”
- “Organizational capacity is the threshold question. The other elements can't make up for inadequate capacity.”

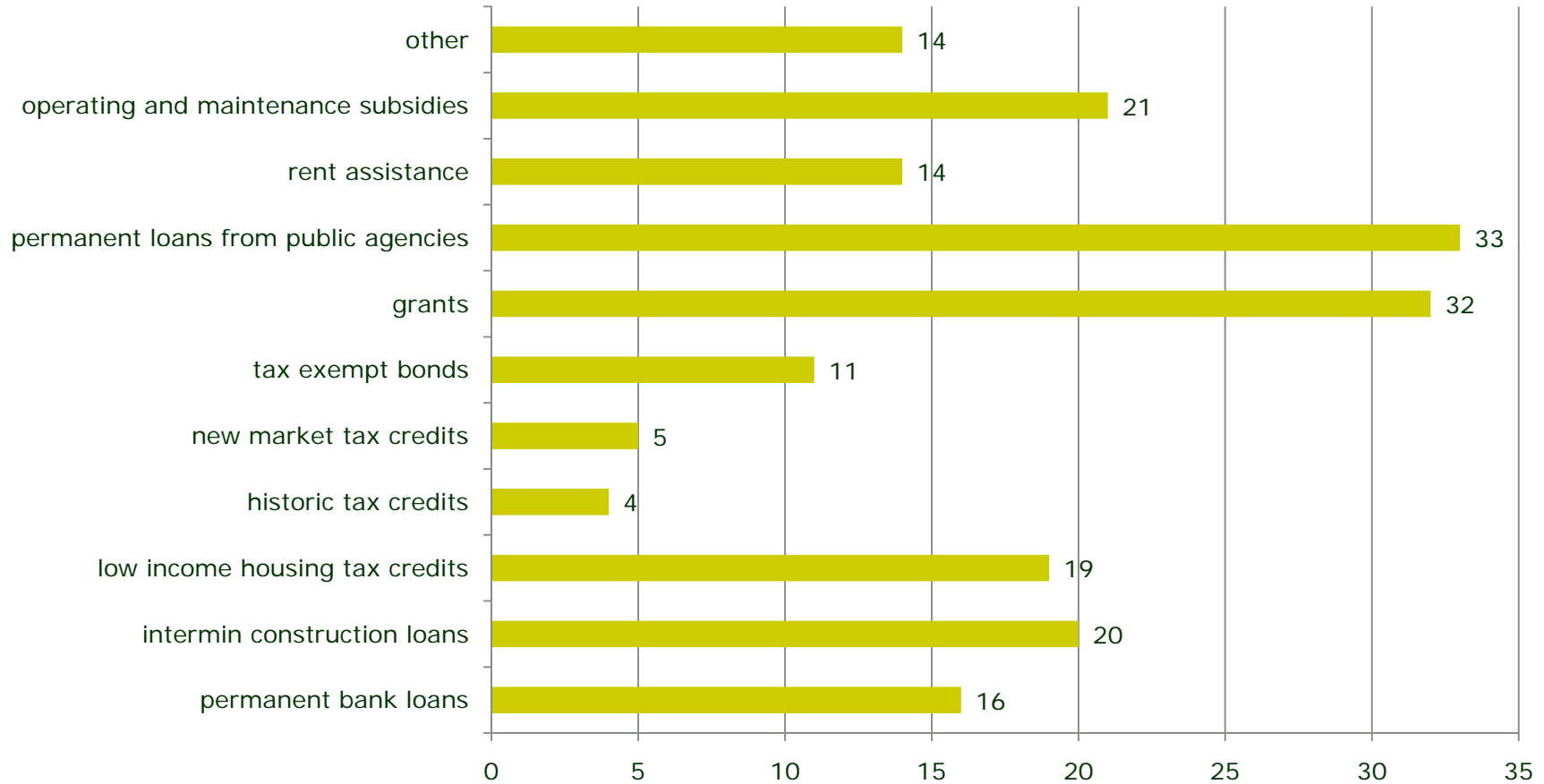
Agency Development Plans

How many units does your agency plan to develop over the next 3 years?



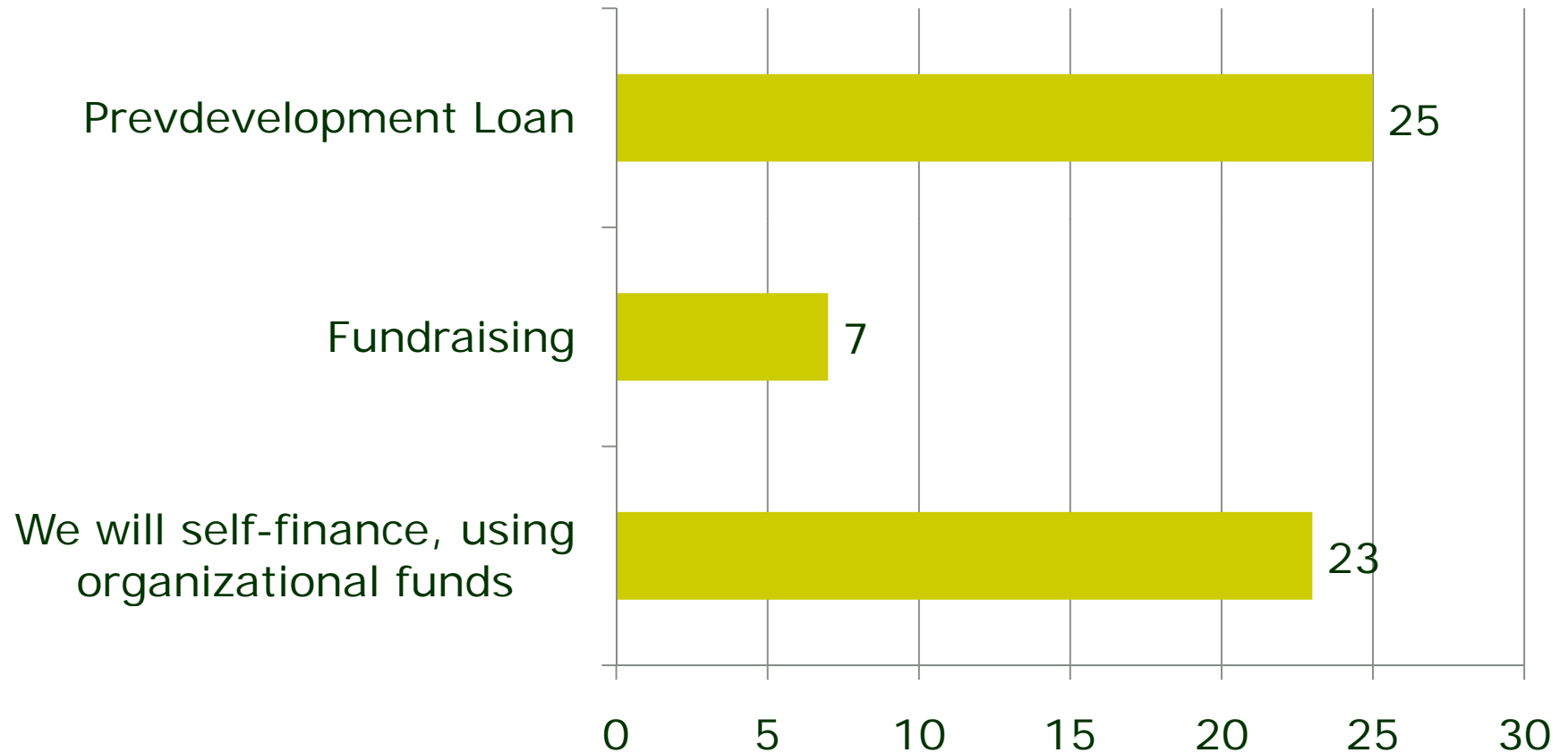
Likely Sources of Financing

Which of the following describes the sources of financing you anticipate applying for in order to meet your development objects over the next 3 years.



Predevelopment Financing

How do you plan to finance pre-development expenses on your future projects?



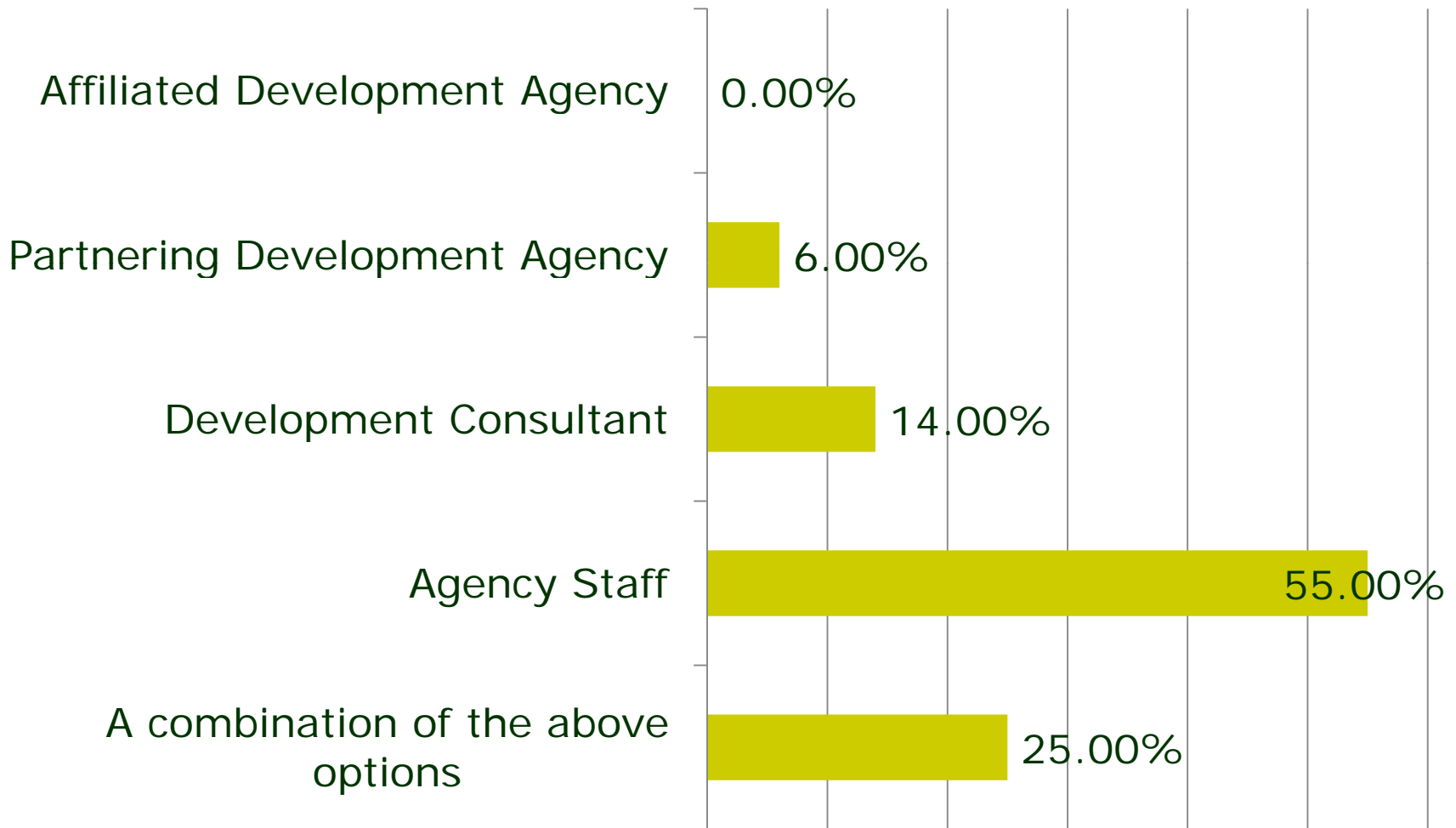
Agencies on Property Management

Which of the following best describes your strategy for property management:



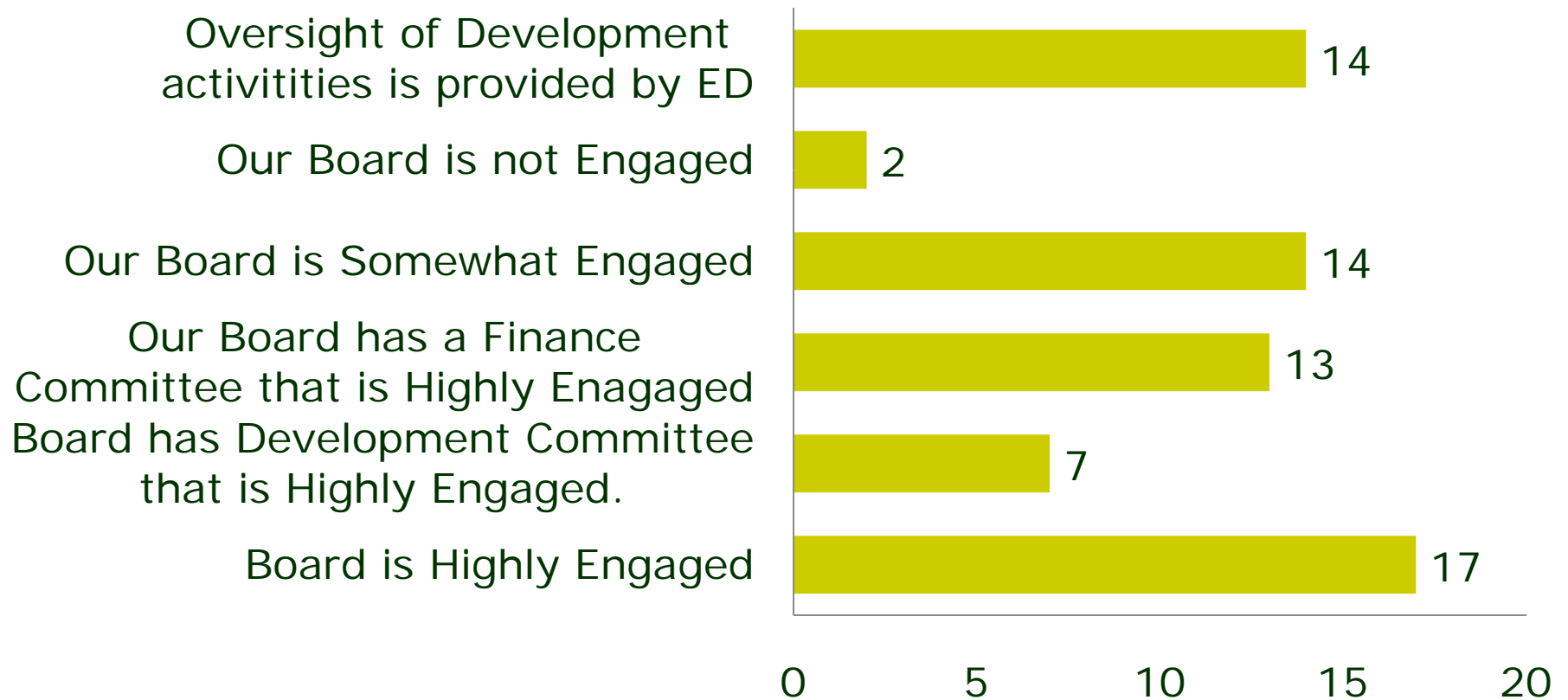
Agency Perspective on Development Teams

Who performs project management and development activities for your agency?



Agencies on Board Engagement

What is the level of engagement of your Board or Commissioners in your development activities.



So What?



RESULTS:

- "20 QUALITIES OF SUCCESSFUL HOUSING DEVELOPMENT ORGANIZATIONS"

Governance & Leadership

1. ED & Senior Staff with Related Experience & Longevity
2. Credible & Experienced Board
3. Board structure & policies include opportunities for project review (defined Board role, clear decision making process)
4. Long term Housing Development Strategies and Goals are Adopted and Monitored by Board.

Governance & Leadership

Funders Looking for:

- Board should have a variety & a diversity of skill sets and backgrounds;
- Board should have good community relationships;
- Board-designated reserves;
- “Credibility of the organization – especially, its ED and Board of Directors, is critical.”

Experience & Relationships

5. Sponsor has experience with similar projects
6. Relationships with funders are strong

Experience & Relationships

- “Sponsor experience at doing similar projects is my most important criteria”
- “We are looking for relationships, not just transactions.”
- “The development team is important if it is felt that the sponsor will be left with “real capacity” to develop, own and manage housing on its own in the future.”

Development Team

7. Sponsor has experience with development team
8. Development team has experience with similar projects

Portfolio Performance

9. Loan Re-Payments made in full & on-time.
10. Reputation for high performing properties.
11. No outstanding compliance findings.

Portfolio Performance

Funders want:

- “Like to see flexibility in the use of existing assets to build the financial strength of organization. A dozen individual buildings where rents only equal expenses does not build organizational capacity.”
- “With some exceptions, we prefer to work with agencies that work with third party property management firms.”
- “Experienced development team does not guarantee project support. Need to be sure that the Organization can sustain itself in the long run.”
- “Typically, we look at prior performance for organization's returning and then like experiences.”

Management Capacity

12. Ownership Infrastructure is Mature.
13. Development controls and procedures (e.g., project underwriting guidelines) are in place.
14. Financial controls & safeguards meet industry standards.

Financial Position

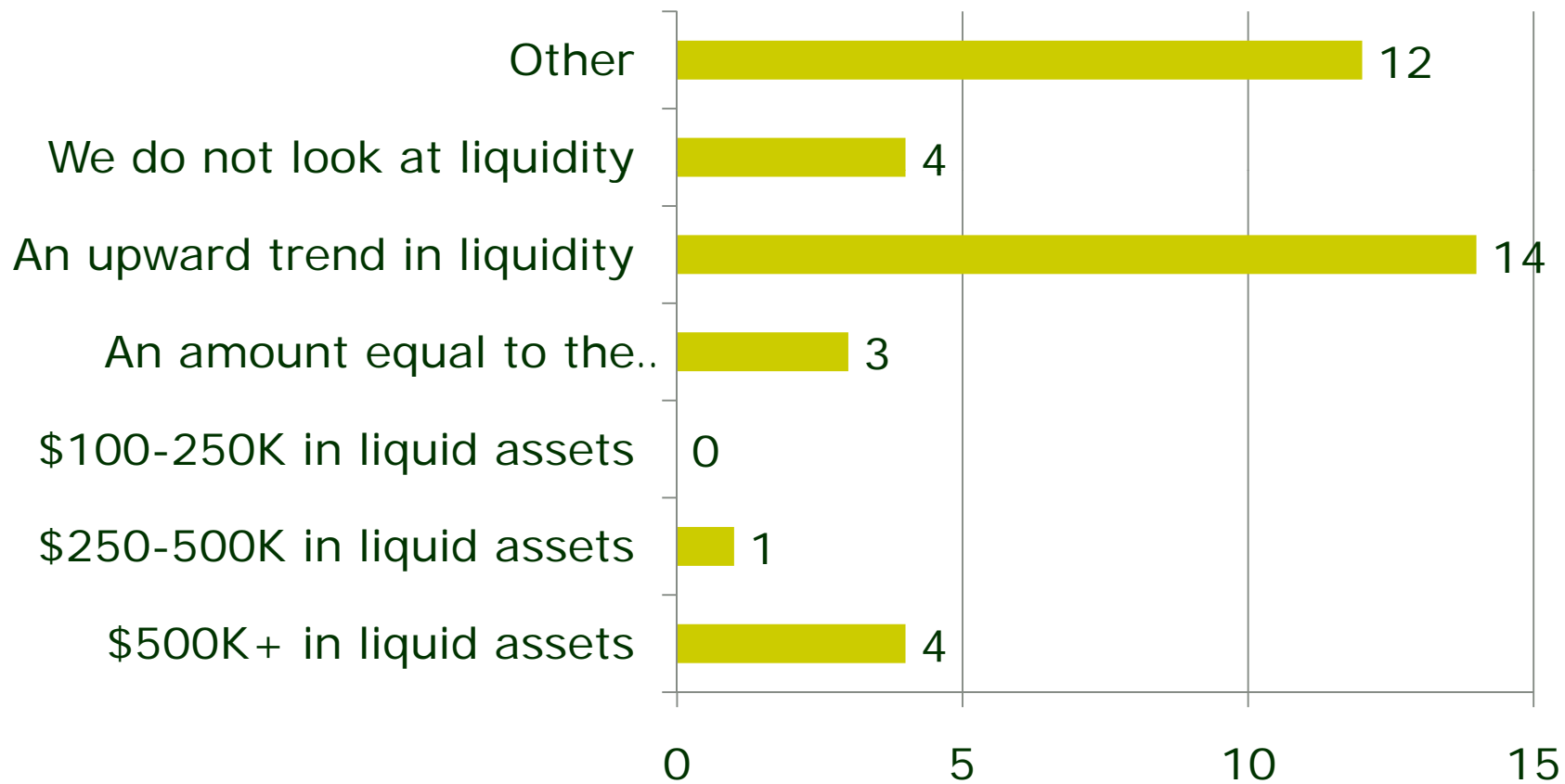
15. Clean organizational audits (i.e., clean opinion) – (29/30)
16. Stable NOI & Reserves – (25/30)
17. Net Assets trends upwards – (8/30)
18. Liquidity trends Upwards – (16/30)
19. Consistency in Annual Expenses – (13/30)
20. Strong & Diverse Sources of Income – (25/30)

Financial Position

- “A nonprofit should operate as any ‘bank worthy’ business and should be a profitable going concern.”
- “Performance on existing projects, no outstanding loan payments or late payments.”
- “Logical scope of services and its fit with the project type - reasonable pipeline of clients/tenants - reasonable pipeline size for the capacity of the organization (i.e. not undertaking more than they can handle).”

Liquidity of Current Assets

If liquidity is important to your underwriting of an organization, which of the following do you require:



So What?

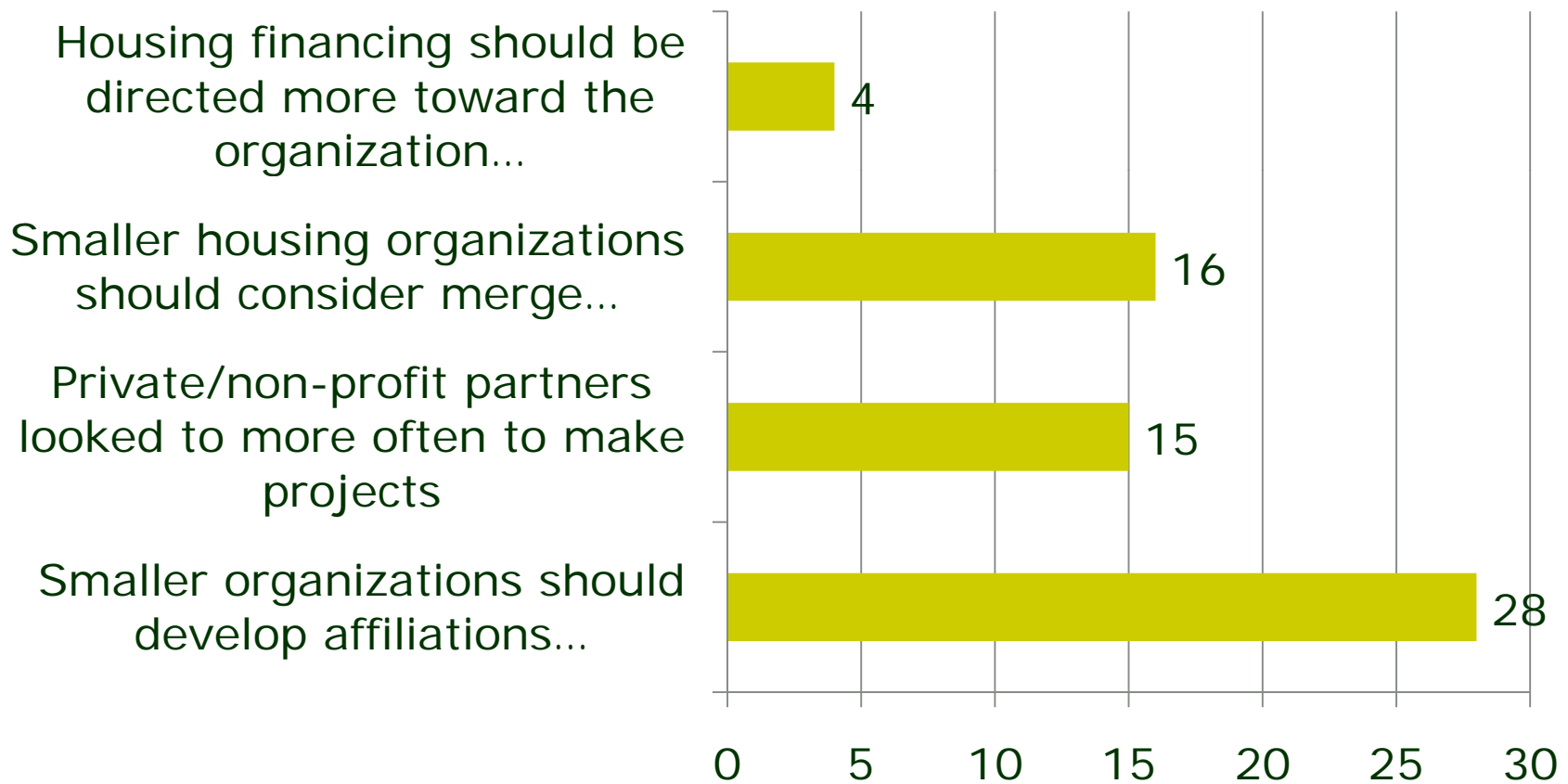


Mitigating Factors

- Development Team
- Having a Plan
- Community Support for your Plan

“System” Strategies

Which of the following system-level strategies for increasing sponsor capacity do you support?



“System” Strategies

- “We haven't seen many workable private/non-profit partnerships and aren't clear on how this would provide an advantage.”
- “Projects completed should result in a definite increase in financial and technical capacity for the sponsoring organization, one that has a lasting impact on the organization and the local community.”
- “Local funders should refine their funding criteria to help build financial capacity of the developers.”
- “As resources diminish, consolidations may become necessary.”

Core Messages

- Your project will not get funded if you lack capacity; or if you fail to mitigate your lack of capacity.
- More Scrutiny & higher standards for organizations seeking financing than in past.
- Not a time to experiment with new products.
- Perfect What You Already Do.
- Size Doesn't Matter (i.e., you don't need to be a huge King County organization).

Priorities

1. Perfect What You already do (Portfolio Performance);
2. Be True to your development experience.
3. Pay close attention to financial indicators
4. Hire Quality staff & development team.
5. Talk to your funders about capacity.

Next Steps

- Agency/Funder Forum
- Talk about Capacity at Consortium Level
- Inform Boards about Capacity Requirements in today's Industry
- Investment Strategy for Capacity Building
- Interest in expanding the web & talking more about capacity.

Go Forth & Grow!

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