

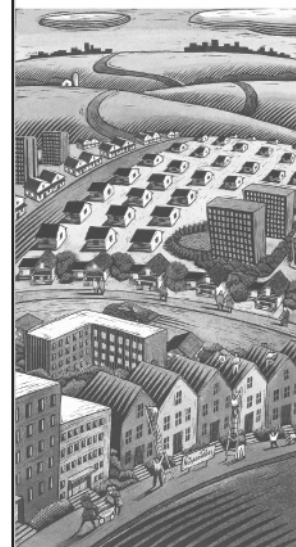


Doing Business in Rural America

Principles and Best Practices
from Practitioners within
the NeighborWorks Rural Initiative

Reframing the Work of Rural Community Development: Case Studies in Innovative Rural Business Strategies

January 2007



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NeighborWorks America

NeighborWorks America, a national not-for-profit, was created in 1978 by an act of Congress to revitalize America's older, distressed communities by establishing and supporting a national network of local nonprofit organizations. NeighborWorks America creates and strengthens resident-led partnerships of lenders, other business people, and local government officials to revitalize and restore neighborhoods in decline.

The NeighborWorks Rural Initiative

The NeighborWorks Rural Initiative, formed in 2000, focuses on building the capacity of rural community development organizations in the areas of housing and community economic development. By the end of 2005, the Rural Initiative had generated more than \$1 billion in investment in rural communities across America over a two year period. It directly assisted more than 32,000 rural families with financial counseling, new home purchases, repairs to existing homes, economic development and job creation, new and improved units of affordable rental housing, and much-needed community facilities.

Rural and urban community development organizations that are members of the NeighborWorks network are called collectively NeighborWorks organizations. For a list of NeighborWorks organizations serving rural areas, see <http://nw.org/network/neighborworksprogs/rural/default.asp>.

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Introduction

Much of community development work in this country is understood in urban terms - densely populated areas with attendant economies of scale, housing issues that can be addressed largely in isolation of economic development and infrastructure issues, micro-level service area focus without the need to address regional economies and housing markets, even simple communications and relationship-building opportunities.

None of this is terribly surprising. After all, the community development field grew out of urban activism and experience.

The translation of urban revitalization strategies and lessons learned into a rural community development model inevitably highlights the challenges unique to highly varied rural markets. The service area is typically numerous communities, sparsely populated, covering great distances. Absent are highly visible corporate headquarters and other traditional opportunities for local private partnership. Smaller municipalities are less likely to offer a full range of services to complement any nonprofit service delivery system.

At first glance the challenges facing rural development seem daunting. Needs – or everything that seems to be so glaringly absent – outweigh assets. However, rural markets are well worth a second look. In the few years since NeighborWorks America launched its Rural Initiative, we've uncovered astonishing examples of innovation with enormous community impact in some of the most challenging markets in America.

We think these innovations are well worth sharing. Rural markets are often the emerging markets for expanding regional economies. The closer we look at the work being done by community based organizations, and in particular, chartered members of the NeighborWorks network, the more we realize that these organizations function as front line economic engines for increased homeownership, infrastructure improvements, job creation and retention.

This report documents the compelling attributes of six business strategies that are successfully transforming diverse rural markets across America. Our hope is that this exciting new information, the *first* of a series, will stimulate numerous and varied adaptations within the community development field and spur additional investment in rural development by the private and public sectors.

Nelson Merced, Director
National Initiatives & Applied Research
NeighborWorks America

Reframing the Work of Rural Community Development

Before diving into subtle and sometimes startling differences in rural development business models and strategies, it may be helpful to refocus on the subject in the broadest sense. What *is* rural? What do we think when we hear the term “rural?”

In their *Perceptions of Rural America* series, the W. K. Kellogg Foundation discovered that one’s view of rural America very much depends upon one’s vantage point but in addition, perceptions turned out to be based upon a few closely held “frames.” These common frames or views inform perceptions that are all too often out of date and out of touch. Without going into exhaustive detail, a utopian frame around rural America—which dreamily depicts pastoral beauty and the healthy, simple life—does not inspire a call to action. Stepping away from the utopian frame means that, among other things, we stop equating the rural economy with farming. Conversely, the other traditional view, the needs-based dystopian frame, equates rural with lack – lack of money, lack of decent shelter, lack of services, lack of jobs. This liability-based view runs counter to current community building and hardly inspires investor confidence. This framing runs the risk of alienating the very people we most want to serve.

A far more useful frame is one that celebrates diversity and explores synergies between urban, suburban and rural markets to create new regions positioned to thrive within the global marketplace. This diversity frame, with its implicit call to action – to identify niche markets and secure a place in the new global economy or be left behind – lies behind our selection of business models and strategies.

To be sure, the community development corporations we showcase are not solely responsible for the success or failure of their respective regional strategy, but their innovations, their response to community conditions, and their standards of excellence unquestionably add tremendous value to their respective regions.

Summary of Case Study Business Best Practices

1. NeighborWorks organizations that build their own capacity by combining community planning, grant-making, and facilities and infrastructure development position themselves well not only to market their core lines of business to rural communities (business cultivation) but to derive revenues as well. For example, organizations like the **St. Lawrence Housing Council** in upstate New York turn the lack of rural municipal infrastructure into an asset.

2. While it is true that in much of rural America, community-based organizational capacity is thin, this can lead to tremendous growth for organizations that develop a solid operation. However, the pressure to expand one's geographic service area is fraught with dangers for the unwary. Market conditions can vary tremendously even within one rural county; this is doubly true when taking on a variety of business lines. **Community Ventures Corporation (CVC)** has been in a rapid growth mode for years out into rural Kentucky from their historic base of operations in Lexington. CVC has developed superlative business planning skills through their ability to price services based upon tracking costs by markets.
3. Growing one's geographic service area not only complicates business because of varying market conditions, it also creates a challenge in the use of public funds. Each jurisdiction has its own set of rules and must seek funding for its own geographic area. **NeighborWorks of Western Vermont** has found a way to pool federal resources for lending and achieve economies of scale.
4. Distance is often a problem when working in the wide-open spaces of rural America. But the Internet knows no physical distance. The **Navajo Partnership for Housing** is using the Net to overcome the problems caused by its far-reaching operations.
5. An expanded geography, with its varying market types, multiple jurisdictions and great distances is a challenge that takes innovative thinking to overcome. A "hub-and-spoke" model has allowed **Neighborhood Housing Services of Great Falls** to expand its top-notch homeownership model throughout the state of Montana. The **Montana Homeownership Network** model holds great promise for organizations seeking to expand their efforts geographically without losing control of their business.
6. While the NeighborWorks Network as a whole may be best known for effective deployment of a host of affordable housing programs and stratagems, organizations serving rural markets have had to take a more holistic view of how best to strengthen community. **Neighborhood Housing Services of Dimmit County** in south Texas moved aggressively into encouraging entrepreneurial job growth when it became clear that housing alone would not suffice.

Turning Challenges into Opportunities

Community organizations in rural America face a number of challenges to improving the quality-of-life for those they serve. The best organizations capitalize upon the opportunities within those challenges.

Achieving Economies of Scale

In order to achieve the scale of production necessary to support core staff, rural NeighborWorks organizations generally serve very large geographic areas, ranging from one county to a few states.

Challenge:

Visiting customers, projects and funders means long travel times, therefore, building relationships in the traditional, face-to-face way can be expensive and time consuming. There are more relationships to build and maintain. When an organization has several small offices in rural areas, it can be challenging to keep all staff on the same page with the same corporate culture.

Opportunity:

Expanding the organization's service area can also provide new partners and therefore new resources. An organization with a solid operation can be seen as a conduit between state level agencies and local communities. While juggling multiple partners is time-consuming, achieving economies of scale through geographic expansion can make for a stronger organization that can provide better services. The "hub-and-spoke" model in Montana has great promise for application in other large rural states.

Accessing Alternative Resources

Funding opportunities are very different for rural organizations than they are for their urban counterparts.

Challenge:

The density of potential resources for community development in urban areas is not replicated in rural areas. Multiple foundations, financial institutions, universities, and major employers in one city are a luxury rural organizations don't have. In addition, Community Development Block Grant and HOME funds are not awarded in entitlements to rural areas. Federal funding proposals typically require multi-jurisdictional sign-offs, so rural organizations may have to build coalitions of small communities to obtain these funds.

Opportunity:

State governments may be more willing to provide resources to organizations that have a statewide reach. As agencies recognize the value of using community organizations as service-delivery mechanisms, they are also more willing to provide operating funds to support these organizations. In addition, while CDBG and HOME funds may be more difficult to obtain, the U.S. Department of Agriculture (USDA) provides funds for rural development that are not available to urban organizations. This money can be used for housing and economic development, or to meet other rural needs.

Diversifying the Portfolio

In small rural towns and villages, community issues are so interconnected that community development organizations cannot do one thing without it leading to something else.

Challenge:

Developing housing may mean providing infrastructure as well. Selling developed homes may mean addressing local employment needs.

Opportunity:

Meeting employment needs, often not as vital to success in urban areas, forces rural organizations into lines of business they are not as familiar with, such as microenterprise development. However, they can become valuable sources of revenue and ways for the rural organization to achieve higher visibility and attract different types of funds.

Bringing Planning to the Community

Community planning is an integral part of revitalization, one requiring significant expertise and resources.

Challenge:

In urban areas, sophisticated planning departments exist at the city and county levels and community development organizations rarely have to provide those services. In rural towns and hamlets, that expertise and capacity simply does not exist.

Opportunity:

In order to access grant dollars for housing, economic development and other services, rural organizations often help small towns create community plans and write applications for them. They also provide program delivery and administrative support, and grant compliance services. Providing these services allows the community organization greater input into the planning process, enhances their impact and provides a source of revenue for them.

In the case studies that follow, we will see how several NeighborWorks organizations serving rural areas have created innovative business strategies to overcome these challenges and even to thrive while extending community development services to hundreds of thousands of people who would not otherwise have access to them.

Case Studies

1: Filling the Gaps in Rural Planning and Infrastructure Development Creates Income, Synergy, and Impact

St. Lawrence County Housing Council – Canton, New York

Rural units of government often lack capacity in planning, grantsmanship, and the ability to develop infrastructure and community facilities. As they become adept at filling these gaps, rural NeighborWorks organizations become an indispensable regional partner, leveraging resources for greater impact.

Because rural areas don't often have the luxury of sophisticated municipal infrastructure, it's not unusual for rural-serving NeighborWorks organizations to offer a broader range of programs and services. By filling the regional planning and grantsmanship functions, either as a paid activity or as a business development stratagem, these rural NeighborWorks organizations are in key positions to spot "tipping point" programs – whether in housing, infrastructure or economic development.

St. Lawrence County Housing Council

Since 1981, St. Lawrence County Housing Council (SLCHC) has served St. Lawrence County in upstate New York. Located north of the Adirondacks, St. Lawrence County is the largest county in New York at 2,688 square miles (750 square miles larger than the state of Delaware). SLCHC's territory stretches from the St. Lawrence River in the north to deep in the Adirondack National Forest in the south. With a population of about 113,000, that's an average of 42 people per square mile. The most populous town is Ogdensburg at 12,759.

SLCHC plays three roles in St. Lawrence County: direct housing assistance through homebuyer preparation, grants, loans and development; technical assistance to smaller nonprofits; and, in a classic accommodation to the rural environment, technical assistance, grant preparation and program administration to the county and local units of government.

The Innovative Business Strategy

SLCHC started its work exclusively through housing, but a poignant experience in Talcville, New York, about ten years ago caused them to rethink their approach. SLCHC rehabilitated five homes in Talcville, at a cost of about \$75,000. Shortly thereafter the local mine laid off most of its workers and Talcville became a ghost town within months. Keith Zimmerman, the Director of the St. Lawrence County Planning Department

and a long time friend of SLCHC, said, “We knew that we couldn’t justify investments in housing in places that had no economic stability. We had to figure out a way to facilitate the kind of holistic planning for these small towns and hamlets that would ensure that all of the interconnected issues they faced – employment, housing, infrastructure – were being addressed at the same time in a way that would lead to sustainability. Our mantra changed from ‘maintain’ to ‘sustain’.”

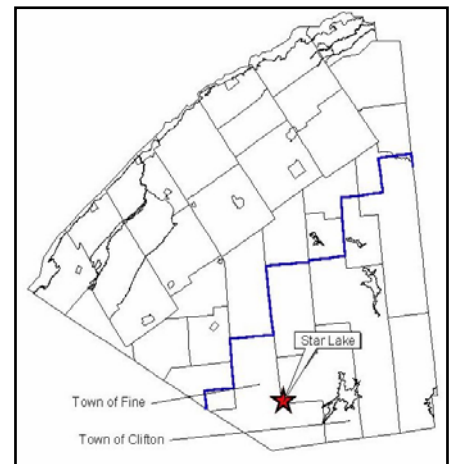
As SLCHC, in a very close relationship with St. Lawrence County, explored the nature of the problem, they discovered that small towns and hamlets did not have the capacity to plan or solve complex community problems, they didn’t have the financial resources, and they tended to be risk-averse. While government could provide some assistance, they also needed the kind of services a nonprofit could provide: community planning, expertise in a variety of community issues at a low cost, program delivery, and grantsmanship.

SLCHC began a ten-year process of growing its capacity in these areas, and in 2001 established a Community Facilities Division (CFD), formalizing and slightly expanding the capacity they have worked years to develop. The CFD has helped towns acquire firefighting equipment and vehicles, save small hospitals, develop community plans, develop municipal infrastructure such as sewage treatment facilities, revitalize downtowns, mount significant economic development projects, and develop recreation facilities.

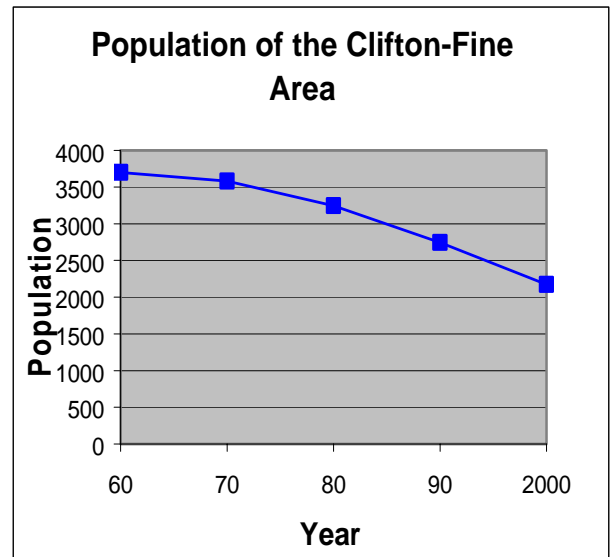
An Example of How It Works

The hamlet of Star Lake is located in southern St. Lawrence County and straddles the boundary between the towns of Clifton and Fine on the northwest edge of the Adirondack Mountains. The area’s economy was traditionally based on primary resource extraction, largely in the form of mining, mineral processing and paper production. However, over the course of the last few decades, the economy has suffered several significant downturns that exemplify the troubles facing rural areas.

The J & L Steel Corporation and adjacent Benson Mines, located just to the east of Star Lake, closed in 1977, terminating hundreds of well paying jobs and creating a slowly crumbling reminder of past prosperity. Since then, the Newton Fall’s Paper Mill had been the area’s largest employer, but then it closed, too. In addition, Star Lake’s tourist industry has been slowly declining for decades as seasonal homes replace resorts.



As might be expected, the towns suffered economically and socially. One of the most obvious symptoms is a declining population, as shown in the graph to the right. Star Lake has mirrored this decline, with its population falling from 1,239 in 1980 to 860 in 2000, a loss of 30 percent. When the mill closed, many young families left, taking their children with them, and it is normal for young people to leave the community as soon as possible. Military enrollment is a common option, and others simply leave after high school. As abandoned and run down buildings became more common, some residences felt the community lost a sense of hope and pride.



However, Star Lake remains central to the communities of Clifton and Fine. The Clifton-Fine Central School, the Clifton-Fine Hospital, an ice rink, and an 18-hole golf course are all located in Star Lake. The Star Lake Neighborhood Center provides food, housing, and weatherization assistance to both communities.

Economic Renewal in Star Lake

The economic renewal effort began with the formation of something called the Clifton–Fine Economic Development Commission around 1997 when the volunteer group that ran the food kitchen in Star Lake decided to do something about the economy. Early on, the Commission convinced the political leadership of the two towns to invite the County Planning Office and their housing development partner, the St. Lawrence County Housing Council, to come in to assess housing repair needs and then to prepare grant applications to address any identified needs. In 1999, the first of three consecutive years of Community Development Block Grant (CDBG) funds was secured on behalf of the town by SLCHC to undertake a home repair program along the Oswegatchie Trail.

Meanwhile, as has since become the norm for all new requests for service, SLCHC asked for a community plan. There wasn't one. SLCHC assisted the towns in identifying a planning consultant. Over time, several key issues were identified and resolved, leading to -

- Senator Hillary Clinton visiting Star Lake and supporting their 15-bed rural hospital, which ended up being saved through special grants and reconfiguration.

- Recruitment of a pharmacist to serve the area.
- “Neighbors Helping Neighbors,” whose members meet every Friday morning during the summer months to work on projects such as trash pick-ups, repainting old buildings and similar activities along State Route 3, the main roadway running through the hamlets of Star Lake and Cranberry Lake - the principal western entry into Adirondack Park.
- Housing rehab projects in three hamlets.
- Development of an Adirondack Community Information Center (ACIC) in Star Lake, currently located in an old one-room schoolhouse on State Route 3 in the center of the hamlet, as well as many other tourism improvements. The center will be one of a planned park-wide network of tourist centers and will provide information about local history, tourist attractions and businesses.
- Development of a community center.
- State Parks and Recreation funding to get all the kids in town skates.
- Revitalization of the paper mill property, and a search for a new buyer.
- Establishment of summer concerts on a barge in the river.

The town boards (members are part-time) could never have put together the funding and expertise for these interrelated projects, but with the help of SLCHC and St. Lawrence County, the Economic Development Commission could spearhead these efforts for them. Now these towns and hamlets are a place worthy of investing housing rehab dollars, because they have a bright future.

Benefits of the Innovation

To Customers: The comprehensive planning, grantsmanship and project implementation SLCHC offers towns gives them new ways of thinking about problem solving and the future of their communities, capacity to deal with these issues in the future, funds for community development projects, a stabilized tax base, housing stock that is improved and maintained, and more engaged citizens.

To Funders: The benefits of this approach to funders include reliable delivery of services and someone on the other end of the phone who can solve problems entrepreneurially; enormous leverage of each investment because of holistic planning and intervention in interrelated community issues; the ability to get funding out “on the street” instead of languishing in a state office because no one knows how to access it; and community benefits like stronger, more self-sustaining communities, individual wealth development, and economic well-being.

To SLCHC: SLCHC has enormous credibility at the local, regional and state levels because of this work. Even though SLCHC cannot seek a Small-Cities CDBG grant for itself, it assists the county in seeking them. Mayors now refer each other to SLCHC, and the county refers people seeking assistance to SLCHC all the time. Executive Director Chris Rediehs says that this work

has stretched and grown their capacity, as well as the diversity of their funding base. The more diverse the funding, the less vulnerable the organization is to funding changes.

Lessons Learned

1. There are growing pains involved with expanding rural economic development services, as there would be with any new venture. The growing pains do pass, and SLCHC is about to reach a break-even point financially with these services.
2. Getting paid to provide these services has been a slow process. Cost recovery comes through administrative grants on the CDBG grants, support from the county, subsidies from fundraising, and a growing number of fees to the recipients of services. The Community Facilities Division is no longer a loss leader, but it took a while to get there.
3. SLCHC's board struggled for a while to be sure that the new direction really fit with the organization's mission.
4. A thorough assessment of the problem is necessary. At first, SLCHC thought the only obstacles to towns and hamlets taking care of community issues were lack of funding and lack of political will. But gradually, they came to realize that technical capacity was also a huge issue. As a result all of SLCHC's assistance is done in a way that builds capacity in the towns and hamlets. They make sure that every project includes an exchange of responsibilities.
5. It is important to plan structurally for the addition of these services. SLCHC ultimately created a separate division and had to subsidize it in its first years.
6. The issues in rural communities are particularly interconnected, so holistic planning is key – SLCHC expects a community plan as part of their help.
7. You have to be prepared to really let go of some aspects of a project if you are going to build capacity in your customers. This means letting go of some control, some money and some credit.
8. Having a strong partner in county government was and is absolutely critical to the success of these kinds of services. SLCHC and St. Lawrence County work closely together, and figure out with each new initiative which parts are best suited to which organization. As a result, each expands the other's capacity.

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2: Sophisticated Cost Analysis Results in Cost Savings, New Income and Cross-Subsidy Opportunities

Community Ventures Corporation– Lexington, Kentucky

In any business, it is important to know what a service will cost before you agree to provide it, so you can be sure that the resources are there to support it. This is particularly important for rural organizations with multiple business lines and locations. Many nonprofits, however, don't know what it really costs them to deliver a specific service in a certain location. This not only makes the organization financially vulnerable, but also diminishes the organization's negotiating position when seeking funding to support the services they've been asked to provide. Community Ventures Corporation has embraced sophisticated cost accounting practices so that they do know what things cost – and as a result, they have been able to make more informed decisions about structure, staffing, markets, and funding which allow them to provide services to more rural communities without going broke.

Community Ventures Corporation

Founded in 1982, Community Ventures Corporation (CVC) is a community-based, nonprofit organization that exists to improve the quality of life for urban and rural residents throughout central and northern Kentucky. CVC's central mission is to provide individuals and families with the skills, income, and assets they need to achieve financial independence. CVC helps people increase income and build assets with three main strategies: small business ownership, home ownership, and job creation through business expansion.



CVC serves 31 counties in central and Northern Kentucky through its headquarters in Lexington and its satellite office in Campbellsville.

The Innovative Business Strategy

Community Ventures started with a service area of the city of Lexington and three rural counties around it. As their success grew, requests for assistance in other rural areas of the state grew also. Executive Director Kevin Smith says, "As I looked around, I saw that there were a lot of resources available to rural communities, but no capacity to deliver services. Most rural areas could only support one or two staff. So I needed to figure out how to expand our services in a cost effective way."

Smith comes from a private sector background, so it made sense to him to build the organization's capacity to track costs in order to inform decision-making. He started with the accounting software Fund EZ, which can only track staff time by two variables at a time – CVC tracked costs by location and by grant source. Eventually, CVC switched to MIP software, which allows them to track by location, grant source and activity. This knowledge has given several important business insights to Community Ventures, which allows them to expand services in a thoughtful, financially feasible way.

- By combining the production of services in high-density urban areas with that of low-density rural areas, overall cost per unit is reduced, making expansion to rural areas more feasible. CVC is currently considering a major expansion to include the city of Louisville and several more rural counties.
- By consolidating key administrative and technical staff (“back office services”) in the home office and making them available to rural areas as needed, the capacity of each staff member is more efficiently tapped, and costs in rural areas are reduced significantly. Currently, Community Ventures has loan underwriters, loan servicers, accounting staff and senior management based in Lexington.
- By understanding which loan products are loss leaders (microenterprise lending) and which throw off revenue (New Markets Tax Credits), CVC is able to assess the markets most likely to yield a balance of customers that will make the overall financial picture work. This information is key to deciding where to locate new offices. As Smith says, “Doing more production of something you lose money on is not by itself success.”
- Knowing the real costs of expanding to a new geographic area gives CVC a solid negotiating position when seeking funding to match requests for service, and makes expansion decisions by board and staff more clear.

Benefits of the Innovation

To Customers: The communities that CVC serves typically get bypassed with funding and programs because there is no infrastructure to deliver services. Without the presence of CVC, these communities would not receive assistance with housing or economic development.

To Funders: Funders have no way to get money on the street without a credible, qualified delivery mechanism. The presence of CVC, made possible in part because of their understanding of costs and resulting changes in their business model, makes it possible to achieve impact in areas that were previously inaccessible. For example, the New Markets Tax Credit program, about 5 years old, had congressional representatives from rural areas

concerned that urban areas were gobbling up all of the funds. In fact, there is just too little capacity in rural areas to request or use the funds.

To Community Ventures: The business model created by cost accounting knowledge keeps the organization stretched to its fullest capacity, while preventing costly mistakes in expansion. It also gives CVC access to a broader array of funding sources – for both urban and rural areas – which makes it less vulnerable to funding changes. The increase in scale afforded by a larger service area also allows CVC to develop deeper technical capacity, and take on bigger and more complex projects, making the organization ever more relevant and useful to its customers. Finally, the increased scale also gives CVC more visibility and credibility at the state and regional level, which results in financial and policy influence.

Lessons Learned

1. Even with the knowledge CVC has going into a new location, it remains an art to determine the right moment to begin service delivery relative to developing resources. Says Smith, “If we go in too soon, we can fail to deliver services and get a reputation for that. However, some resources cannot be cultivated without a track record in a particular place. It’s a delicate balancing act.”
2. CVC learned to be careful about which products it leads with in a new location. A balance must be struck between moneymaking products and services and those that are money-losing, right from the start.
3. CVC finds that funders have a way of leading nonprofits into a new effort without providing adequate resources to deliver. Knowing what things cost makes it possible to negotiate with them from a position of strength.
4. The accounting software you choose is critical. CVC now uses MIP, which allows them to track staff time over three areas: location, grant source and activity. Smith says that the technical support available from the manufacturer is critical. He found that MIP tech support understood community development and the nonprofit world, and was able to help CVC set up the right chart of accounts, and to iron out issues as the organization learned the new software.
5. You have to make it easy for staff to track their time if it is going to be cost effective and accurate. Electronic activity reports make it easier for CVC’s staff. Smith also says that any tracking of time is better than none. “Don’t get hung up on tracking every 15 minutes. If a certain kind of service generally breaks out in certain percentages over three activities, just build it into the software. It does not have to be perfect to be useful.”
6. Smith points out that using a for-profit tool like cost accounting cannot prevent the special challenges of nonprofits from thwarting a well-laid plan. “The main difference between nonprofits and for-profits is that most of the changes for-profits make are due to their customers, whereas most of the changes nonprofits make are due to their funders. If a funder

changes their rules, all bets are off and we have to come up with a new plan.”

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3: Establishing Regional Loan Funds Across Large Geographic Areas Achieves Economies of Scale and Access to More Capital

NeighborWorks of Western Vermont– West Rutland, Vermont

Lending for home repair and improvement and home purchase is a core service offered by many NeighborWorks organizations. In rural areas, this lending is largely capitalized by federal CDBG and HOME grants, which can only be accessed by individual towns. As rural community development organizations expand to new areas, the temptation is to start a separate revolving loan fund for each community, negotiating loan policies each time. By thinking outside the box, NeighborWorks of Western Vermont completely revamped this practice, achieving economies of scale for themselves and for funders, gaining new sources of capital, and getting more of that capital on the street.

NeighborWorks of Western Vermont

Incorporated in 1985, Rutland West NHS began as housing rehab specialists working with low-income residents of four towns in Rutland County. Over the past decade, the organization has expanded operations to include home ownership education and financing, financial counseling, foreclosure intervention, emergency shelter funding including aid for the mentally disabled, and community development projects on a town by town basis. Most services are offered to any resident of the twenty-seven towns in Rutland County as well as the recently expanded counties of Addison and Bennington.

The Innovative Business Strategy

Like other rural NeighborWorks organizations, NeighborWorks of Western Vermont must apply for federal CDBG and HOME funds on behalf of each town it serves. In their case, these funds were used as revolving loan funds for housing rehab and purchase down payment loans.

When such funds are awarded to a town, there is a 25 percent recapture requirement imposed by the U.S. Department of Housing and Urban development (HUD) – in other words, 25 percent of the loan repayments must be returned to HUD. Also, many of the funds awarded languished in town coffers for lack of demand or capacity to get the money out.

Almost by accident, NeighborWorks discovered that they could establish and manage a regional loan fund with this federal capital, which would have no recapture requirement, and could allow any funds not used by a town to

move into a regional pool available to any customer after a certain time period. With the organization's first geographic expansion, they embraced the regional loan fund strategy. Whenever a new request for service is received by a town, NeighborWorks negotiates an agreement that includes standardized loan policies and enrollment in the Revolving Loan Fund Consortium. Most importantly, this agreement includes moving loan funds designated for a particular town into the regional fund after the first generation of loans have been made. The regional fund becomes an asset of NeighborWorks of Western Vermont and is made available to any client in their service area.

As NeighborWorks developed a track record for effective deployment and management of resources, the State of Vermont began to request that towns with dormant loan funds and loans receivable (loans on the books, many of which were non-performing) transfer them to NeighborWorks' regional fund. With its skill in loan servicing and collections, NeighborWorks has brought most of the non-performing loans current. The organization now has a \$5 million portfolio, which grows annually.

Benefits of the Innovation

To Customers: Because of NeighborWorks' enormous capacity and skill at lending, many more homeowners and homebuyers are accessing low-cost loans and technical assistance. They are also able to avail themselves of more than one service because NeighborWorks provides an array of important products. For example, a rehab loan customer may also get training and counseling on budgeting and credit. These related services are not available from small towns.

To Funders: Investors in the regional loan fund (some of whom are banks) are assured that their funds will get out to the people who need them, getting more impact from every dollar they invest – both because NeighborWorks writes grant applications for towns and because NeighborWorks has an astounding deployment rate. They also experience economies of scale because there is less administration and fewer grantee relationships to maintain. Finally, NeighborWorks can sell loans made from the fund to NHSA, the secondary market of the national NeighborWorks network, leveraging even more loan capital and more impact.

To NeighborWorks of Western Vermont: The credibility that NeighborWorks has gained through the regional loan fund has resulted in direct, and ever-increasing grants to the fund. They've also been able to build the fund by absorbing dormant funds from towns. By using standardized loan policies (including underwriting guidelines) for each town, NeighborWorks has less administrative burden.

Lessons Learned

1. Deputy Director Mary Radja says to negotiate the shortest time possible for loan funds to be segregated for the use of one town. “You want the funds to move into the regional fund as soon as possible in case they are not getting out in the designated community – that way they are accessible to more people in your region who need them.” Also use standardized loan policies for every new fund, so that you don’t spend time qualifying people on different criteria depending on where they live.
2. Be sure to pay yourself for administering the fund. Most groups will get a percentage of the loan capital for administration of the fund, but it probably won’t cover the true cost of marketing, counseling, underwriting, originating, servicing and collections, preparing loan sales, auditing and managing the assets. NeighborWorks of Western Vermont will be charging a loan servicing fee to the fund for each loan it makes. Also, this year they were able to get a Small Cities CDBG grant that was pure administrative funding (\$700,000 over 2 years)– the idea being that they can probably assemble loan capital from other sources, but need to be paid to administer the funds.
3. Be careful to match the terms of your sources and uses of loan capital. NeighborWorks was offered a program-related investment from a foundation, but the term for repayment was three years. NeighborWorks decided to turn it down because the term of their loans is a minimum of five years.

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4: Internet Technology Can Bridge Communities and Partners over Large Geographies

Navajo Partnership for Housing - Gallup, New Mexico

Rural nonprofits generally have large and sparsely populated service areas, where both funders and customers may live far from office locations. The hours of travel, high cost of gasoline, weather, and bad roads all conspire to make face-to-face meetings difficult. In these situations it is all too easy to let distance become a barrier to communication. Fortunately, the Internet offers an inexpensive and efficient way to keep in touch, especially with funders and other partners who have high speed Net access and are comfortable with using this technology. With a modest investment of capital, the Navajo Partnership for Housing (NPH) developed its Web site into a highly effective means of keeping funders across the country up to speed on new housing activity in the Navajo Nation. In the near future NPH plans to use the site to communicate more actively with board members and customers as well.



Navajo Partnership for Housing

The Navajo Partnership for Housing was created to provide innovative and flexible homeownership financing opportunities on or near the Navajo Nation. Through homebuyer education and financial literacy training, NPH teaches Navajo families the skills they need to build, buy, or renovate their homes. NPH also has a revolving loan fund it uses to purchase, rehabilitate, and re-sell properties to Navajo families.



The Navajo Nation crosses the boundaries of three states (Arizona, New Mexico, and Utah), and covers over 27,000 square miles. To provide some sense of scale, there are ten states in the US that are smaller than the Navajo reservation. To serve this sprawling area NPH maintains a central

office in Gallup, New Mexico, and branch offices in St. Michael's and Page, both in Arizona. More than 155,000 tribal members live dispersed throughout this territory, which means that NPH staff have to be active with three different state housing finance agencies, HUD Offices, Rural Development Offices, and multiple lender partners as well.

The Innovative Business Strategy

Around the year 2000 NPH developed a higher profile with national funders. It became one of two pilot sites under then-President Clinton's One Stop Mortgage Center initiative, an effort to improve access to homebuyer education and financing for members of native communities. NPH also received funding from the Private Mortgage Insurance (PMI) and Wells Fargo Foundations, and had a strong relationship with Fannie Mae's Southwestern Partnership Office.

While all this attention was exciting, with its vast area NPH still felt disconnected and isolated. To maintain the momentum and enthusiasm for its work, NPH needed to keep funders informed of its successes quickly, efficiently, and at a low cost. Steve Barbier, a NeighborWorks America Management Consultant, urged the organization to consider a web-based strategy, but NPH was concerned that designing and updating a Web site would take skills they did not have on staff and could not afford to hire. It was enough of a struggle to cover the costs of their core housing programs; there was no room in their budget for a programmer.

NPH used a small grant of less than \$5,000 from NeighborWorks America to build a low-tech Web site that existing staff could update themselves without highly specialized computer knowledge. The new site, at www.navajopartnershipforhousing.org, provided just the right solution for bridging the distance to funders. The design is very simple, with minimal graphics, and just seven different pages containing information on NPH's mission, vision and values, lending partners, loan products, and client stories. The opening page contains the most recent information, with space for digital photos and short narrative descriptions. When there is a new loan closing, staff can take photos of the family and home, write a brief story about the new owners' path to homeownership, and upload it all to the site.

How It Works

Having a great Web site is no help unless people read it, and busy professionals are unlikely to see the updates unless they have a reason to. NPH maintains an email distribution list of roughly 60 people, which includes funding partners and others interested in NPH's work. Whenever they update the site, which is at least once a month, Executive Director Lanalle Smith simply sends a blanket email to the distribution list advising people

that there is new material to see. She provides the link to the Web site in the body of the email. The Web page opens to photos of smiling families and shiny new homes, and brief stories of how NPH was instrumental in helping them purchase. Lending and funding partners are also recognized for their contributions to the deals.

Advocacy and Public Policy: Indian Country Issues

NPH created another page on its Web site called "Indian Country Issues," where it posts updates on its efforts to advocate for homeownership on tribal lands. Lending on tribal lands can be a tremendous challenge because the land is owned by the tribe as a whole, and cannot be deeded to a single individual. The current approval process can extend for months, which can be difficult for all parties involved.

The Navajo Nation, along with other Native American tribes around the country, has been working for some time to expedite the approval process. NHP's Web site provides a vehicle for communicating with lender partners about successes and emerging issues in this area. Because documents are posted and remain there over time, the Web site also serves as a written history of NHP's efforts to advocate for an improved approval process. This is another example of how NHP uses its Web site in a practical, "no frills" way to communicate with partners.



These photos of Venissa Cheschilly and Gary Nelson Lee at loan closing, and their new home, appear on NPH's website. Accompanying the photos is a brief narrative introducing the family, the home they purchased, and the assistance NPH provided to them.

Looking to the Future

Looking ahead, NPH wants to make the site more useful for its customers. Lanalle Smith says she will hire professional help to redesign it, but she hopes to continue using her existing staff to update the content. "We need to make it more user-friendly, make it easier for customers to find information about programs, and to fill out forms online" she explains. Five years ago, when the site was first created, many Navajo households lacked a telephone, never mind a computer and Internet access, so the original site was not designed with customers in mind. Since then, the Gates Foundation has installed high-speed Internet in all 110 Chapter Houses across the reservation. Even if they do not have a computer at home, Chapter Houses offer good access to the Internet for most Navajo households. NPH hopes that using their Web site to communicate and work with customers will help improve efficiencies and reduce transaction costs.

Benefits of the Innovation

To Customers: The Web site is less customer-oriented at this point, although that is likely to change with the next version of the site, now under development. Currently customers can check the site to see examples of how NPH has helped other homebuyers. One page allows customers to download and print an application form; this cannot be completed online, however. Class schedules are also posted online, as well as contact information for all staff.

To Funders: Funders get to read about success stories, which help them stay connected to the NPH and their homeownership activities. And since NPH recognizes the partners involved in the financing, funders get their names in print, helping them in turn with their own marketing efforts.

To NPH: With a minimum investment of time and effort NPH can capture the attention of busy funding partners all over the country. The email reminder is a signal that there is something new and significant for them to see on the Web site, and it takes only a couple of minutes to click on the link, open the first page, and read about the Navajo Nation's newest homeowners. It's a quick and easy way for NPH to say "we're still here, we're being effective, and here's the pay-off for all our hard work": proud families moving into their first homes.

Lessons Learned

1. There is a balance between simplicity and detail. On the one hand the site works well precisely because it is simple, easy for staff to update, and has only a handful of pages so viewers can easily find their way around. What is gained in ease of use, however, is lost in the level of detail it provides. NPH's Web site allows for virtually no graphics and very little variety in how photos and written material are presented.
2. Lanalle Smith says that before creating or re-designing it is important for groups to do their own research into what options are available, and to think through what their organization needs. Who do you want to visit the site? What do you want them to learn about your organization? What types of information are they likely to be looking for? Doing some of this work up front will make it easier to work with the web designer.
3. NPH's intentionally designed their Web site to make it easy for someone without a lot of technical skills to update it. This is essential for rural nonprofits that are usually thinly staffed, and where staff often wear more than one hat. Making the Web site easy to update helps ensure that this will happen on a regular basis.
4. Cross-training is essential! Even though NPH took pains to build a Web site that was easy to work with, only one staffperson (the previous executive director) did all the updating. When he left NPH no one was trained to take his place as web manager. Ongoing cross-training is essential to ensure that there are always staff around who can update the site. One way to do that may be to charge different staff with updating different pieces: class schedules, program materials, success stories, or contact information, to name just a few. That way, it is not as onerous a task for any one individual, and staff

can cover for each other during vacations, holidays, or when positions turn over.

5. While it is important to train more than one staffperson to upload content to the site, some standards are necessary to define what is appropriate to put up there. What sort of image is your organization trying to convey? What photos, and which stories, best convey that image? Staff working with the site should be clear about standards, and about who has the final say if there are any questions.
6. Staff need training in how to use the Web site effectively as a marketing tool, and clear expectations that they are expected to do so. Including the Web site on business cards and emails, and drawing people's attention to it as a resource are ways staff can encourage use of the Web site. This is particularly true of a site that is more customer oriented, which is where NPH is headed next.
7. Emailing an alert when new material is posted on the Web site is a clever strategy that works on a number of different levels. At its most basic level it's a quick reminder that you exist, and confirmation that you're still out there producing homeowners. It puts the Web site address right in the email, just one click away from being on the screen, so partners don't have to go looking for it. And it's also a good way to avoid getting caught by spam software that might block an email with a large attachment, like an e-newsletter or report.

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5: Achieving Statewide Coverage Expands Resources Exponentially

NHS of Great Falls and the Montana HomeOwnership Network - Great Falls, Montana

Rural families need just as much help as anyone else when it comes to buying and maintaining their homes, but nonprofits struggle with how to deliver that assistance efficiently. There just isn't enough operating money to create a NeighborWorks organization in every town, or even every county, especially in an enormous state like Montana where urban areas are the exception. So the options seem to be sending a qualified instructor out to the hinterlands from an urban hub, which requires expensive travel and may create a clash of cultures, or to require customers to travel hours and hours into an urban office.

The problem with both those models is that they assume that remote regions of a state have nothing to offer. Rural areas do have substantial nonprofit capacity. When NHS of Great Falls went looking for partners it found them in some unlikely places, but the Montana HomeOwnership Network now provides homebuyer education and counseling all over the state, and has developed its own organizational identity. The statewide structure has helped leverage funding that might not otherwise have been available.

The Innovative Business Strategy

NHS of Great Falls (NHSGF) was founded in 1980 to revitalize neighborhoods in Great Falls, and has since expanded its mission to include promotion of homeownership opportunities for Montana families. Its strong success in helping low and moderate income families buy, build, and renovate homes led to inquiries from the Montana Board of Housing (the state's housing finance agency) and others about expansion into other areas of the state. Lacking other housing partners, in 1997 NHSGF began working on a pilot basis with a USDA Rural Conservation and Development (RC&D) office that covered 10 counties in North Central Montana.

The USDA established RC&D offices to help rural areas work on things like soil and water conservation projects. While they were designed to interface with local landowners, and even had the capacity to loan money to support conservation projects, homebuyer education and counseling were not part of their charge. But in other respects they were ideal partners; they had offices in rural communities, were known and generally well-liked by the people they served, and they had other funding streams to support their operations. NHSGF arranged for Larry Robertson of the North Central RC&D to receive Homebuyer Education training at a NeighborWorks Training Institute, and

gave him ongoing advice and support. The RC&D region could also access NHSGF's down payment, closing cost and first mortgage programs, without having to establish its own lending capacity. Impressed by the results, the State RC&D Board asked NHSGF to expand the program to all eight RC&D areas, covering 56 counties around the state. In 2000 the Montana HomeOwnership Network was born.

In order to achieve statewide coverage NHSGF has had to reach out to other rural partners, and has found them in community action agencies, housing authorities, Indian Housing Authorities, and nonprofit housing developers. The original eight partners have expanded to 23, united in their commitment to help rural families of modest means acquire and maintain their homes. Some are specialists; the Indian Housing Authorities work mostly on tribal lands, for example, and there are a few that are particularly skilled in delinquency counseling and foreclosure prevention. Some offer self help housing programs, or develop new housing for sale to qualified buyers. They all, however, offer a basic package of homebuyer education training, individual counseling, and access (through NHSGF) to housing subsidies and loans that can make homebuying more affordable. According to Sheila Rice, the Executive Director of NHSGF, the Montana Housing Network recently celebrated its 3,000th homeowner.

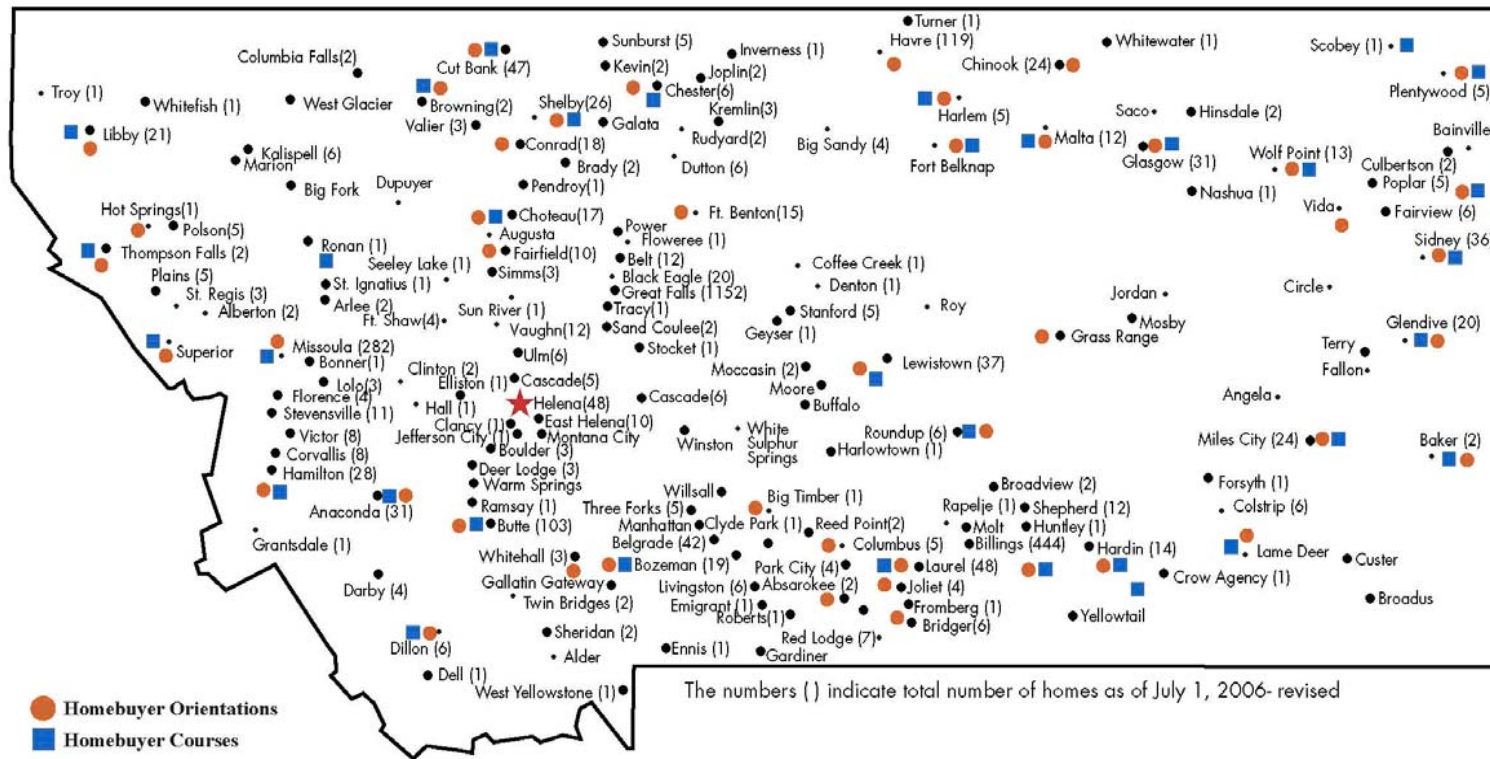


The Montana HomeOwnership Network's 3,000th homeowner!

The following map illustrates the Montana Homeownership Network's statewide coverage and production.

MONTANA HOMEOWNERSHIP NETWORK - NEIGHBORHOOD HOUSING SERVICES OF GREAT FALLS

Homebuyer Education and Down-Payment Assistance



Between 1998 and July 1, 2006, the Montana HomeOwnership Network and Neighborhood Housing Services of Great Falls assisted 3,054 families in becoming homebuyers.

From its beginnings as an affiliate of NHSGF, MHN is emerging as a strong and vibrant organization with its own identity. It has sought and received 501(c)3 certification from the IRS, has its own board of directors, and became a NeighborWorks America chartered member in 2006. In some respects NHSGF is still the driver; MHN operates out of NHSGF's offices and the two entities share some staffing, including their executive director. This arrangement strengthens both organizations, as it reduces costs, increases capacity, and improves access to funding.

How It Works

MHN uses a franchise approach, making a big effort to avoid duplicating coverage. "A huge part of what we do is provide training," says Executive Director Sheila Rice. NeighborWorks America pays for airfare and hotel rooms, while MHN pays the tuition fee and the MHN partner agency picks up ground transportation and meals. Funding for the training also comes from the Montana Board of Housing, which makes a direct grant from its own resources and also contributes HUD Housing Counseling funds.

Once they are trained, the local partners provide homebuyer education courses and pre-and post-purchase counseling. Where a local partner lacks the capacity to offer individual counseling, a Consumer Credit Counseling Services agency can step in and provide it, usually in-person but if necessary over the phone.

The local partners also help customers to access downpayment assistance or second mortgages. Funds for these are provided by the Montana Board of Housing, but managed by the MHN central office. When a family is approved by a local lender for a first mortgage, the lender sends the loan packet to MHN for processing of the other housing assistance. MHN reviews and approves any secondary financing, and sends the loan packet back to the lender for closing. Once the loan is closed, MHN services the second mortgages and handles all reporting.

To help its members cover costs, and to encourage and reward production, MHN pays them \$50/hour for counseling, \$50/hour for homebuyer education, and \$50 for every person completing homebuyer education training. MHN also splits fees from loan closings, and pays for their staff to attend NeighborWorks Training Institute training.

MHN's total annual budget is just over \$800,000 a year, which includes both MHN staffing and the payouts to members for training and fees. A little less than half (43 percent) of operating funds come from the Montana Board of Housing. The remainder comes from a diverse array of funders, including a CDFI grant, Rural Development, NeighborWorks America, and Wells Fargo Bank, among others. It is hard to imagine this level of resources going to a smaller, regional entity; clearly, it was MHN's extraordinary, collaborative

approach to serving all corners of the state that has made it attractive to funders.

Sheila Rice says she has been impressed by how easy it has been to work with the local partners. “They have been very competent” she explains, “and everyone believes in the mission. Even when homeownership is not their primary goal, everyone gets the relationship between economic development and housing.”

Benefits of the Innovation

To Customers: MHN makes it possible for families throughout the vast state of Montana to get access to homebuyer education, pre- and post-purchase counseling, and affordable mortgage products. Prior to MHN the state had uneven coverage, with a few cities (like Great Falls) receiving terrific services and customers in many rural areas getting no assistance at all.

To Funders: It is far easier for funders to work with one large organization than with 23 small ones around the state. Many funders lack the staff resources to evaluate proposals from every fledgling housing group. A large entity like MHN, backed by a nonprofit with substantial experience, is far more likely to have the systems and oversight in place to ensure that funds are accounted for and outcomes tracked and reported. With a single investment funders can touch homeowners around the state, and be confident their funds will be well managed.

To MHN Partners: Participation in the MHN is a definite win for its 23 members. For minimal cost they get the opportunity to expand their programming, get free training, and have some of their overhead paid. It gives them a new relationship with old customers, and access to new ones they might not otherwise have served. Sheila Rice says her biggest surprise has been the local partners’ excitement about growing their capacity. Isolated in remote regions, and lacking budgets that will support travel and training costs, local partners have been thrilled at the new skills they are learning as a result of their participation in MHN.

Lessons Learned

1. A critical factor in MHN’s success is the Montana Board of Housing’s decision to support it financially. Its contribution of over 40 percent of the budget ensures that the MHN can succeed as envisioned. By rewarding collaboration, not competition, the Board has helped build and sustain a truly statewide system that it could not have achieved by giving the same amount of funding to two or three groups.

2. NHSGF deserves enormous credit for recognizing that the best chance of success lay in building the capacity of other organizations, rather than simply adding staff and creating its own empire in Great Falls. By lending its credibility and expertise to other groups, NHSGF gave up the potential of increased funding for its own operations in the short term, but in the long term gained a much broader voice and role in the statewide MHN.
3. Like everyone else, funders are looking for ways to stretch and leverage the dollars they invest. Increasingly, they are pushing for regional solutions that increase efficiencies and improve services to customers. The MHN has had great success in attracting investment from funders who recognize that it is an efficient delivery system for assisting rural families with homeownership.
4. Even very rural areas have an infrastructure that can be used to support homebuyer education and training. Because their major focus is soil and water conservation, the RC&D offices were unlikely candidates for anchoring a rural homebuyer education system. Yet they had exactly the capacity that is most difficult for urban providers to replicate in rural areas; they had offices, staffing, and a thorough knowledge of the customer base and region. With the proper training and support their staff could quite easily be deployed in training homebuyers.
5. There is a clear connection between housing and economic development. No matter where you are, you need a job to keep your home, and your workers need a place to live. Understanding this brought groups—whose missions weren't housing focused—to the MHN table, and kept them there.
6. Rural nonprofits cannot work for free. The deal had to be worth their while, covering not just their staffing time but a portion of their overhead as well. The fee structure recognizes that MHN members need to hire skilled staff to deliver services. And by paying for results, not effort, MHN gets the most bang for its buck.
7. It is often easier to simply replicate a model that has proven to be effective in other areas; sometimes this is even the smartest and most efficient thing to do. Montana housing providers took a long hard look at needs, strengths, and weaknesses, and determined that the available models were just not a good fit with their giant, rural state. Instead, they developed a unique solution which not only works well for Montana but which serves as a useful model for other rural areas.

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6: Intervention in Local Economies Generates Big Impact

Neighborhood Housing Services of Dimmit County - Carrizo Springs, Texas

The connection between housing and community economic development is compelling everywhere, but especially in low-income, sparsely populated areas. Without a housing stock it is difficult to attract a workforce, and without jobs the workers cannot afford to live in the area. Rural areas often have nonprofits that specialize in either housing or community economic development, but it is rare to find one that does both on the scale of Neighborhood Housing Services of Dimmit County (NHSDC).

Neighborhood Housing Services of Dimmit County

NHSDC was established in 1986 to help the 11,000 residents of Dimmit County with their housing needs. The county, which is about 40 miles from the Mexican border, has a predominantly Hispanic population. Residents are generally low income, with a third to a half of residents living below the federal poverty line. Unemployment hovers around 15 percent. Many residents are migrant workers some of the year and do not have incomes high enough or stable enough to support mortgages. NHSDC was launched following an enthusiastic community outreach and discussion process in which hundreds of residents turned out to talk about their needs and their vision for the future.

While NHSDC enjoyed some early successes, notably in the areas of rehab loans for homeowners and new construction, it was clear from the start that the lack of jobs in the county was limiting housing production. As much as they needed homes, local families needed jobs even more, and lack of job security contributed to residents' unwillingness to take on debt. At the same time NHSDC was struggling to keep its doors open, with grants of operating funds scarce and low production generating few fees.

In 1989 NHSDC went back out to the community to seek more input into what residents needed and wanted to see happen. Residents stressed that they liked what NHSDC was doing, but there was a resounding cry for development of new, stable jobs that could help residents remain in the area and afford housing.

The Innovative Business Strategy

NHSDC used an 18-month planning process to review and consider its economic development options. The best known model was to entice a large manufacturer to locate a plant there, but given its isolation, small population, and lack of a skilled workforce NHSDC concluded this approach was unrealistic. Job creation was going to come through building on their strengths; retaining and expanding the small businesses they already had, and developing new ones. Dimmit County is part of an area known as the "winter garden," which has a nearly year-round growing season. Far from being the liability they had once thought it to be, the agricultural-rich, undeveloped county might turn out to be a strength.

NHSDC's board decided to pursue three separate but related approaches to economic development.

1) Intermediary Re-lender

The first and very critical step was to obtain designation as an intermediary re-lender from the US Department of Agriculture, which NHSDC completed in 1996. USDA awarded NHSDC a \$1 million loan from its Intermediary Re-lending Program (IRP) to support small business development in the area. Within a year NHSDC managed to lend out the \$1 million, starting 12 new businesses and creating 37 new jobs in the area. This initial success helped NHSDC win three additional IRP loans, which it borrows at 1 percent and re-lends at 7-8 percent interest. The float from the loans helps fund operating costs.

2) Commercial Real Estate Development

The second step was to apply the experience it had gained in home building to commercial real estate development. NHSDC discovered that there were public agencies, such as the regional council of governments, which were looking for new office space in the area. NHSDC acquired, very cheaply, a vacant 18,000 square foot building that had formerly housed an auto dealership. Since the building was basically in good shape it required relatively little work to renovate it into commercial office space, and within a short period the Middle Rio Council of Governments signed a lease for the whole building. Almost overnight, it seemed, NHSDC had an income stream of \$40,000 annually from that lease alone. Since the Middle Rio COG served a nine-county area, NHSDC also acquired political support to expand its economic development activities beyond Dimmit County. This would prove helpful going forward to NHSDC's applications for private and public investments.

In the next few years NHSDC made two more strategic purchases of large commercial office space, and received as a donation the office building of a local savings and loan when it went out of business. "We now own 46,000 square feet of commercial office space in different communities, which brings in an income of about \$100,000 annually" says Manuel Estrada, NHSDC's

executive director. "Earning program income is so important for us, because it is so hard to find grant money for ongoing staffing."

3) Entrepreneur

Program income has another important feature; there are few strings attached to its use. NHSDC's third strategy was the most risky and daring of the three. Using some of its income to leverage other grant funding, NHSDC turned entrepreneur. It formed a for-profit subsidiary and capitalized it with a \$75,000 grant and \$30,000 of its own resources. With this investment NHSDC launched Tejano Chile, Inc., a jalapeño canning business, which it began in its own backyard (a large commercial space NHSDC had acquired a few years before). Estrada hired a consultant who had worked in the huge chili canning factories in Mexico. With his help they bought used equipment from California, manufactured a few pieces they needed to make it work, and got underway. "It was a bit like they say, 'held together with baling wire and duct tape'" laughs Estrada. "But it worked! At one time we had 13 employees out back canning jalapenos." The business soon produced 60,000 eight

ounce jars of the stuff, which sat in the warehouse as Estrada and his staff sought without success to find a market for the product. As clever as their consultant had been in producing jars of jalapenos, he was no expert in marketing it, they discovered. NHSDC found it hard to compete with the huge chili canning businesses in Mexico just over the border; going to trade shows and aggressively marketing the product in stores took a lot of money they didn't have. They also ran into some issues with the Food and Drug Administration they hadn't known about and which proved too costly to resolve. Reluctantly, after about a year, Estrada shut the operation down.

Canning equipment used in Tejano Chile, Inc.



What some groups might take as terminal failure, Estrada and his Board regarded as merely a speed bump. The business had closed, to be sure, but there were many positives. Estrada, his staff, and the Board had gained considerable experience from this venture. They had proven that with a small amount of capital they could launch a business from scratch, which utilized the agricultural strengths of the area. The lessons they had learned about the Food and Drug Administration, and about marketing, could be put to use in future ventures. Just as importantly, they owned the factory equipment free and clear, and it could be easily engineered to process a wide variety of produce. When the next opportunity came along, they would be ready.

A recent venture has included acquiring 250 acres of agricultural land and 12,000 square feet of greenhouse space to create a new "agri-plex" center. This center would use hydroponics technology to grow produce for the South

Texas market, and provide training to local small farmers who were interested in building their own greenhouses for specialty crops. In June, 2006, the USDA awarded NHSDC a Rural Business Enterprise Grant to complete the greenhouses and support the training activity, some of the final funding needed to put this project together.

This capacity, along with the manufacturing plant, recently caught the attention of some out-of-state investors interested in establishing a new olive growing and processing industry in South Texas. A deal with these investors could convert the old jalapeño plant to an olive press, and use the greenhouses to start olive seedlings and raise nursery stock for local orchards. Estrada is excited by the possibilities. "This is something new for a rural area" he says. Getting in on the ground floor of a new olive oil industry could put the agricultural land back to work in a very productive way, and has the potential of earning NHS millions of dollars annually by 2013.

Success Breeds Success

NHSDC hasn't succeeded at everything it set out to do, but it has done well enough to attract a lot of attention from funders interested in supporting rural enterprises. In addition to the activities described above, NHSDC has become certified as a Community Development Financial Institution by the U.S. Department of the Treasury, which gives it access to additional capital for capacity building and lending activities. It has also received HUD Rural Housing and Economic Development (RHED) funding for micro-loans, which has been a successful business line. One of the first loans was to a woman who created a pet grooming and boarding business at her home; this was the first business of its kind in the area, and it has been very successful. Other loans have been for restaurants, a donut shop, and daycare providers. NHSDC received the funds as a grant, and lends them out at 6 percent interest.

More recently NHSDC is starting to see more interest in housing, which is attributable in part to its economic development activities, as well as other recent trends such as increased border patrols. In response, staff are planning to ramp up housing activities. A new approach is to build single family homes for moderate income customers, which Estrada hopes will generate more fee income to support homebuyer education and counseling.

Benefits of the Innovation

To Customers: Without jobs few customers could buy or rehab their homes. Given the area's high unemployment and poverty rates, job creation had to take priority over NHSDC's housing activities, if only for a little while.

To Funders: As NHSDC diversified its funding base it has been able to reduce its reliance on one or two sources of operating funding. NHSDC's willingness to step up and take on new challenges has made it an attractive partner for funders wanting to invest in rural enterprises. Through NHSDC funders can direct dollars to assist a very low income and mostly minority population, which is often an important part of their mission. Finally, NHSDC's successes help funders justify their own requests for additional money; it makes them look good.

To NHSDC: Diversifying its activities literally helped NHSDC keep its doors open. The housing market was so slow that it was difficult to justify its existence on that alone. It was clear, too, that people wanted to buy and rehab homes; they just couldn't afford them without jobs. NHSDC's economic development activity has brought new life and hope to the communities it serves.

Lessons Learned

1. A key to long-term success in rural areas is diversifying your activities. Marrying housing with community economic development introduced NHSDC to new funding partners, and allowed it to keep going when its housing activity slowed.
2. When embarking on entrepreneurial activities, like establishing new manufacturing businesses, make sure you have a firm commitment from end buyers before you launch the operation. Having the right skill set on your team, from manufacturing to marketing, is critical to the success of these ventures.
3. You cannot be scared to fail when you try to do something new. If it does not work, figure out what went wrong, learn the lesson, and keep going. Stay open to possibilities.
4. Earning program income to subsidize operating expenses is critical for rural nonprofits, which often struggle to find grants for ongoing operations. NHSDC currently earns about 60 percent of its annual budget through fees, primarily from lending, commercial leases, and developer and general contracting activities.
5. Be frugal with your spending, and try to generate reserves so you have some money and flexibility to work with. If you don't have the money to move fast you may miss opportunities- federal and large national partners move too slowly. In the months that it can take to receive approval of grant applications, business opportunities can evaporate.

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Afterword

The case studies presented here are intended to demonstrate that the challenges faced by rural communities can be overcome with innovative approaches to the *business* of community economic development. Sometimes it is a matter of seeing the same set of challenges differently through the rural lens. Sometimes taking the time and applying the self-discipline of costing out services leads to a very different business model. And sometimes the willingness to take risks and measure success triggers some pretty dramatic course corrections in midstream.

The organizations showcased in this collection were selected for their ability to respond to their unique market conditions, to remain flexible while undergoing organizational change, and perhaps most importantly, their skill at transforming external challenges into internal organizational strengths.

The growing field of rural community development is a constant source of new ideas. Today's innovations become tomorrow's best practices. This collection is intended to open a broader dialogue. Readers are encouraged to borrow what seems useful, to adapt the models to better fit your communities, and to engage NeighborWorks and your colleagues with your own models for doing business in rural areas of the country.