

Capital: A New Approach to Lending in Nonprofit Affordable Housing

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Summary/Abstract:

In spite of a diminishing supply of public resources, many nonprofit housing developers are expanding their roles and their portfolios to address an increasing need for decent affordable housing. But as nonprofit housing organizations mature, the traditional project-by-project funding system fails to support their broader development goals. This paper stresses the urgent need for equity, or "organizational capital," to help nonprofit housing organizations build their capacity and their impact. Unlike conventional financing, organizational capital is underwritten against a borrower's balance sheet, or its organizational ability to repay. Whereas project-based loans are tied to one particular project, organizational loans can be a source of liquidity whenever an organization needs it: on the front end of a deal, for general business operations or during periods of organizational expansion. Despite its many advantages, there is an extremely limited supply of organizational capital in nonprofit affordable housing. This research outlines the practical challenges to organizational investing and uncovers the underlying barriers that have prevented a nonprofit organizational capital market from emerging. These findings lead us to explore nonprofit housing organizations in a "closed system" of standardized reporting and rational decision-making. The study concludes that while a new nonprofit reporting system would greatly encourage organizational investing in housing, the private markets alone will not bring organizational lending to scale. The final sections of the paper discuss the public policy implications of a closed nonprofit capital system and highlight some innovative approaches taken by lenders to overcome the obstacles of organizational investing and advance a new model of lending in nonprofit affordable housing.

Audiences Served: Advocates; Policy Professionals; Researchers

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