The Washington Community Reinvestment Association: 15 years of banks banding together for the greater good

In February 1992—fifteen years ago this month—the Washington Community Reinvestment Association (WCRA) opened its doors with 37 financial institution members, a $75 million loan pool, and a mission to finance affordable multifamily rental housing in our state. The story of WCRA’s inspiration, genesis, and accomplishments is a story of a great idea that garnered enough support along the way—from a community development think tank and the Federal Reserve Bank in San Francisco to forward-thinking bankers and government officials—to build a constituency of highly supportive partners who all “got it” and worked hard to see it through to fruition.

Since that time, WCRA has gone from strength to strength. It has grown in membership and taken a strong advocacy position to increase support at a statewide level for affordable housing and it’s financing. It now has three revolving loan pools totaling approximately $105 million. And it has expanded its mandate to include real estate-based development in areas and enterprises that serve low-income and special needs populations. All told, after a decade and a half, WCRA has financed the construction and preservation of close to 8,000 homes for people throughout Washington State.

WCRA is a banking consortium: an association of for-profit banks and thrifts that band together to participate in community development lending. The rates WCRA sets for low- and moderate-income housing and other projects are below market, which lends a hand to worthy efforts. Member financial institutions, in turn, are able to diversify risk, gain credit toward meeting their Community Reinvestment Act (CRA) requirements under federal law—and gain that great intangible of doing the right thing by their communities.
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Judy Reed’s leadership
WCRA was one of the first lending consortia to be established and it is now widely acknowledged as one of the most innovative and effective organizations of its kind in the U.S. “It’s been a great run,” says Judy Reed, who just stepped down this month from her role as WCRA president.

Judy led WCRA from the very beginning. As everyone I’ve interviewed for this issue of My View has emphasized, she was the perfect choice for the role. Judy provided thoughtful leadership, serious banking credentials, innovative ideas for new lines of business, and the ability to bring different groups to the table.

She helped WCRA build a strong financial footing and, along the way, established it as a voice to be reckoned with in affordable housing advocacy in the state legislature. She also helped WCRA develop a strong voice at the national policy level, and took a leadership role in advising other consortia across the country on best practices.

The perception of risk—and the provisions of the CRA
All of WCRA’s accomplishments are based on a single key insight, which became the basis for a paradigm shift. Thanks to WCRA, for-profit financial institutions in our state have a completely different perception of the risk posed by affordable multifamily lending.

The funding climate was very different two decades ago. Many affordable housing development projects foundered because of a lack of permanent financing. Much of this was due to a simple misconception on the part of private lenders, who assumed that lending to nonprofit developers must be extremely risky. In fact, it was unknown territory, and many banks simply didn’t have the in-house expertise to evaluate projects. This was truly a national problem. There was the recognition that affordable housing was a growing national crisis. The Low Income Housing Tax Credit (LIHTC) program was in its infancy, but few banks were willing to jump into LIHTC-subsidized projects.

At the same time, banks were—and still are—under a considerable amount of pressure to meet the requirements set by the CRA, which was passed in 1977. The point of the CRA has always been to ensure that banks are fairly meeting the credit needs of the communities in which they operate. That means not just taking deposits from customers, but making loans and meeting the spectrum of banking needs of the low- and moderate-income people and their businesses in the areas where these banks conduct business. Banks, thrifts, and other depository institutions are routinely audited by federal agencies to ensure compliance.

The genesis of a great idea
The notion of pulling together banks to pitch in on financing affordable housing deals while at the same time enabling them to remain fiscally responsible to their shareholders “was really John Trauth’s idea,” says Kathy Kenny. In 1985, John was executive director of the Development Fund and Kathy was deputy director. The Development Fund is a San Francisco-based think tank and incubator for innovative programs in the areas of affordable housing and community development. It’s a small organization, founded in 1963, that has launched some high-profile ideas.

John recalls the situation in the mid-eighties: “There was some resistance on the part of banks to make loans for affordable housing projects because they didn’t understand them, the risks were undeterminable, and there were all these other partners in the deal, like governments—and it was all just too complicated.

“We came to Bob Parry and Kelly Walsh at the Federal Reserve Bank of San Francisco (FRBSF) with this idea: Why don’t we create a statewide lending consortium for affordable housing, where the banks would get together to form a nonprofit mortgage banking corporation and then hire people to run it who really
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knew what these projects were about," says John. “The banks would be able to fund these projects, and in the process, they would form a loan committee and make decisions—and learn about them and how safe they were.”

John and Kathy began by securing grants from several foundations to lay the groundwork for pulling a task force of banks together in California. John’s banking consortium model had been inspired by two previous community development finance models, the Community Preservation Corporation in New York and Chicago’s Community Investment Corporation.

Both had some similarities to what he envisioned, but there were some significant differences: they were regional, not statewide, and they focused on rehabilitating existing housing stock in lower-income neighborhoods—not new construction.

“The question was, can we take that basic structural model and adapt it for a new product and make it statewide,” John says. “That was the challenge.”

Fifty-six California banks were recruited, beginning in 1988. During the initial phases, concerns about legal and IRS issues were addressed by the task force. This was also where the Fed’s participation came in handy: the Fed team could draw on a large legal staff. “We were able to assure the bankers that they would get credit for their participation in the consortium under CRA,” adds Kelly Walsh.

In 1989, after the feasibility studies were completed and the operational framework was built, the nation’s first statewide banking consortium, California Community Reinvestment Corporation (CCRC) was officially launched.

Washington State quickly catches on

Right out of the gate it looked like CCRC was going to work, and work well. The teams at the Development Fund and FRBSF knew that this was a great idea that could be replicated elsewhere. They decided to focus next on Hawaii—another state, like California, where housing costs were particularly tough on low-income residents. About the same time, both Florida and Washington State were showing interest. Officially, Washington State was the fourth to found a banking consortium, but the efforts to get WCRA off the ground were “almost simultaneous,” says Kathy.

In 1990, FRBSF made the official entrée to several of the top banking leaders in our state. Gerry Cameron, then the Chairman of US Bank of Washington, agreed to take on the role of task force chair. “He was the ideal choice,” recalls Kathy. “He was very community-minded, very open to the idea, and had the
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respective of his fellow bankers.” The original
group of top Washington State bankers in sup-
port of the consortium idea also included Tim
Turnpaugh, vice chairman of Seafirst Bank (and
task force vice chair), and Security Pacific Bank
Executive Vice President George Michael.

Nineteen Washington State financial institu-
tions signed on to join the task force; public
agencies were also invited to contribute as
well. I was asked to participate in this evalu-
ative process, as was Jeff Robinson, who repre-
sented the Washington State Housing Trust
Fund (HTF), along with others from the public
sector.

At the time, most of us had no inkling of the
long and successful journey we were embark-
ing on. I remember sitting at the original meet-
ings and saying to myself, “This sounds like a
wonderful idea; can it really work as well as
they say it will?”

The original concept was simple: creating a
revolving loan pool that would be used exclu-
sively to fund affordable and special needs
housing. We quickly added four more objec-
tives to our wish list:

- Creating an effective method
  of pooling risk
- Reducing and controlling
  administrative costs
- Sharing the specialized
  underwriting/lending guidelines for
  affordable and special needs housing
- Assisting lenders to meet their
  CRA goals

Working out the details turned out to be a
16-month process that involved more than 40
lenders, a dozen public agencies, John and
Kathy from the Development Fund, and Kelly
from FRBSF. That’s truly where the WCRA
partnership began, in the monthly meetings
and committee work and reports that were
carried out over that period. At the very start,

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After the initial task force was completed, the
banks themselves took over. It was their organ-
ization. Doubtless many members had no idea
how successful their venture would become.
The 37 bank members agreed not only to capi-
talize the original operation, but to subsidize
its operations for a maximum of three years.
WCRA would need to focus on becoming self-
supporting and would also seek out secondary
markets for its loans.

There was one remaining task that was
absolutely critical: selecting a leader to run it.

The right people

There’s a story Kathy and Kelly tell about tak-
ing Judy out to dinner at the Space Needle to
talk her into applying for the president slot.
“We worked her over,” says Kelly. Judy
remembers it this way: “At the time, I was
working for Security Pacific doing community
reinvestment and community development
lending. One morning—this was in 1991—I
learned that BOA had just bought my bank.”

KATHY KENNY
Former Deputy Director
The Development Fund

WCRA was already fine-tuning a consortium
model that would be unique to our state’s
needs. WCRA members would include not only
banks, as with CCRC, but also thrifts. In the
coming years, WCRA would continue to set
itself apart in the uniqueness of the lines of
business it created to benefit the communities
of our state, and in the collegial relations that
came to flourish among member banks.
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 Says Jim Boora, outgoing WCRA chair and former CEO of Aberdeen’s Anchor Bank, “We were really fortunate from the beginning to have Judy Reed involved. She came to us with a great deal of experience. Member organizations had considerable confidence in her. She brought a lot of credibility to the role.”

WCRA's history is a history of partnerships, and no one has played a stronger part in this than the bankers themselves. “The bankers really have been wonderful about being able to put their competitive issues aside, and working together around the issues of affordable housing through the WCRA. I’ve really been quite proud of our industry that they’ve been able to do that. They’ve given this organization tremendous support over the years,” says Judy.

Former WCRA chair Karen McCormick, who is president and CEO of First Federal Savings and Loan Association in Port Townsend, is quick to also credit Judy Dailey’s contributions. At the time of WCRA’s founding, Judy worked in the Community Development office of Federal Home Loan Bank in Seattle. “Judy Dailey was very passionate about banks taking CRA to heart,” says Karen. “Not looking at it as a regulatory requirement, but as something they could do, they could feel good about—and that they could make a profit doing. She worked a lot with Judy Reed in those early days, to make sure that banks could take it to heart. She was passionate about it enough to convince me—and to convince our organization.”

Right after WCRA opened its doors for business, in April 1992, WCRA hired Susan Duren as vice president and director of lending. Earlier this month, Susan took the reins from Judy as WCRA president. For those of us who have worked with Susan over the years, there’s no question that she is the right choice. “Susan,” says Judy, “is as committed to this organization as I’ve ever been. I’m leaving with very good feelings about who’s taking over WCRA’s legacy and moving ahead with it.”

Working on many fronts to support community revitalization efforts

WCRA’s primary loan pool of $75 million is funded by all members; their participation is based on the size of their deposit base in the state. Every bank is invited to take part in every loan.

Pool two, inaugurated in 1996, currently stands at approximately $23 million. Like the initial loan pool, it is dedicated to financing affordable multifamily rental housing in Washington State. It is based on voluntary participation by the members.

WCRA’s third loan pool focuses on real estate-based economic development. This includes nonprofit office buildings and the commercial portions of affordable housing projects that provide jobs, services, and facilities. This voluntary pool has $7.7 million.

Housing advocacy is an important part of WCRA’s activities. WCRA works with the advocacy community to increase support for affordable housing and funding at a statewide level. In addition, WCRA works with the Washington Bankers Association and the Washington Financial League to keep their lobbyists aware of these issues.

WCRA’s partnerships with the public sector increases its reach. These include administering the construction lending program for the Housing Trust Fund, and partnering with the Commission in financing projects through the Capital Plus and Low-Income Housing Tax Credit programs.
A statewide organization

In 1992, with a small but expert staff, “we started doing deals,” Judy says. “By the second year, we were self-supporting and had closed loans on about $22 million. It was a lot of work, but it was definitely the right time, the need was there, and we had the product to fill it.”

In addition to getting projects underway, right at the top of Judy’s agenda was making sure that WCRA fulfilled its mission of meeting funding needs throughout Washington State. “There was quite a bit of skepticism on the part of people in central and eastern Washington about whether they’d ever see us on that side of the mountains,” Judy laughs.

Judy took WCRA’s role as a facilitator and promoter of affordable housing seriously. That meant, for one thing, getting out to rural and eastern areas of Washington State to help develop a marketplace. “In the beginning,” she recalls, “there weren’t as many people doing housing development as was needed to do the kinds of volume we wanted.”

She worked with Maureen Markham, a Washington State housing resource team leader, to create a series of workshops. “Maureen did Housing Development 101 and I did Housing Finance 101. We worked to improve capacity. There were a number of non-profits doing social services that saw housing as a need, but didn’t have the development expertise. Working with the state, we tried to build that—and to ensure that there was as level a playing field as we could get.”

WCRA has seen a significant portion of its loans applied beyond Puget Sound. By 1995, 20% of that year’s business was generated from Eastern Washington. “We go on a first-come, first-served basis, but we’ve never had a shortage of money—we’ve always had enough to meet demand.”

Larry Burke, a senior VP with Key Bank’s Cascade district, is the newly appointed chair of WCRA. He notes, “WCRA does a fantastic job in giving us the opportunity to participate in low-income housing projects throughout the state. WCRA makes sure that projects throughout Washington get a fair hearing and get their fair share of funding. The ultimate proof of that is the expanded membership base that we’ve built up over the past 15 years.”
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Leaving their lapel pins at the door

Karen McCormick has observed WCRA’s growth since its initial task force was formed. “We agreed from the start, that when we walked into the WCRA meeting room and sat down as a group to consider applications, we would leave our lapel pins at the door,” she says. “And that’s hard for a lot of bankers.”

Bankers go by professional standards in analyzing loan applications. “These are industry-wide standards,” says Karen. “The whole reason WCRA was formed was to make the loans that we banks don’t make. We’re trying to spread the risk around and spread the lesser margins—the lack of risk premiums—around.

And when you walk into that room, you can’t use the standards that you’re using in your banks. You have to remember that your mission here is to make the deals that you would not make. That’s been a challenge through the years. You apply your skill, you assess the risk as you’ve been trained to do. But the risk you’re willing to take is a little different.”

Karen notes that every bank member receives every proposal—and has the ability to opt out of any deal. But to her knowledge, the banks have consistently stayed. “Obviously, WCRA now has a great track record. It has been in existence long enough that the portfolio has matured. With some of those projects, there may have been areas where WCRA did take a little extra risk, but it’s proven to be worthwhile. The loans have seasoned. And the concept has ended up proving itself to be very valuable.”

For Jim Boora, because a bank of Anchor’s size typically isn’t large enough to support a designated CRA officer, one side benefit for Anchor Bank and other smaller WCRA members is that “we were able to learn as much from the process as we were able to contribute.”

Generating new lines of business

From the Commission’s perspective, there was one particularly good reason why I was pleased about WCRA coming into existence when it did. By 1992, the year of WCRA’s launch, our state’s LIHTC program needed an infusion of more than $40 million in permanent affordable housing loans, primarily to for-profit developers, to make our state tax credit program successful. At the time, many state housing finance agencies had to develop lending organizations to support their tax credit programs, or they had to make the loans themselves. Without WCRA and its newly formed lending pool, the LIHTC program was not going to reach its full potential.

In addition, Judy and her staff recognized the opportunity the program presented for WCRA to quickly build a successful portfolio of loans and an income stream to support itself. In its first year of operation, WCRA extended $17 million in financing commitments on tax credit projects. In fact, for the first two or three years, WCRA financed almost every tax credit project the Commission allocated. WCRA continues to be one of the largest permanent lenders in this statewide market.

Later on, in 1997, we turned to WCRA again when we sought an innovative means to finance smaller projects, what we now call the Capital Plus program. This encompasses financing for both housing and capital facilities for nonprofit organizations. The challenge was that projects of $500,000 or less are fairly expensive to fund as an actual bond issue. We entered into an agreement with WCRA: they would make loans of under a half-million to nonprofits that met the same criteria that we would normally use for a bond issue. WCRA agreed to fund these projects for terms and conditions that are practically as good—but without all the fees.

Capital Plus works well and cuts through red tape for the Commission. It gives WCRA another line of business in servicing these
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loans, and the nonprofits get cheaper loans for these “smaller” projects. It’s a win-win-win.

Another new line of business that WCRA succeeded in creating for itself is in the area of technical assistance. Since 2002, WCRA has partnered with Washington State in administering the construction lending program for the HTF.

From the outset, WCRA has also had the objective of developing a secondary market for its loans. Since it’s considered a revolving loan fund, Jim Boora explains, “we should be generating those loans and eventually finding a market for them, so WCRA funds can then be turned over and made available to other borrowers.”

Unfortunately, finding that conduit hasn’t been easy—“but we have offered the loans for sale to our members,” says Jim. “Anchor Bank in the past has purchased several loan offerings; those have been excellent purchases, they performed very well, and allowed us to reach out beyond Aberdeen.”

**ARCH: banking consortia working together across state lines**

There are now about 14 banking consortia nationwide. Over a decade ago, the Development Fund helped FRBSF pull together an informal organization, the Association of Reinvestment Consortia for Housing (ARCH), to provide a forum for these groups to discuss challenges and to provide support and guidance for one another.

Says Jack Richards, current director of community development at FRBSF, “ARCH has been highly successful; it meets twice a year and the group primarily sets the agenda. It’s our job just to convene them. We’ve looked to WCRA and CCRC as leaders among the consortia—not only were they early and therefore had more experience than others, but Judy in particular had so much banking experience, so much knowledge, and understood the landscape in Washington so well. She rose to the top.”

In addition to its support of ARCH, Jack’s group has created the Center for Community Development Investments. ARCH has been serving as a pilot group for the Center “to test out some of our theories around secondary markets, such as repackaging loans—like what Fannie Mae does,” says Jack. “But it’s been tougher for multifamily projects, particularly anything outside of the ordinary.”

The ultimate goal is to pool efforts in financing unusual multifamily projects, “where there might be enough volume that we can justify pulling these together in some way across state borders. We’re still working on that but I’m hopeful. Given how banks have moved across borders, I think it’s important for the consortia to do the same.”

**Vision and commitment**

After 15 years, WRCA has matured. Three new member banks joined this month, bringing the current membership total to 46 financial institutions. WCRA has helped to finance more than 7,900 affordable rental homes and 85,000 square feet of retail/industrial space for communities.

“We are always looking outside the box,” says Susan Duren. WCRA has built a reputation as an organization committed to innovating ways to get affordable housing and community revitalization efforts financed. But its role has gone far beyond that. From the start, Judy Reed recognized that WCRA couldn’t just sit back and wait for the loan applications to come in. They needed to encourage developers, legislators, and public sector and community organizations to envision these projects, and to foster a dialogue to help further them.

“If there’s anything I wasn’t sure of when I took this job was just how strong WCRA’s commitment was,” says Judy Reed. “And after 15 years, I can tell you, it’s stronger now than it was then. There’s never enough public money to go around for all the needs that exist, and our ability to leverage the public sector monies the way we have over the years has been very effective.”