



Building with Hope in Appalachia

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Broken markets, broken systems

Central Appalachia is well-known for its pervasive poverty and is often seen as place largely devoid of opportunity. For decades, many different solutions have been introduced to make a positive economic impact in the area, and while some progress has been made, Central Appalachia continues to lead the nation in poverty rates, low-educational attainment, and unemployment. As a practical, nonprofit cooperative working to bring positive change to the region for 29 years, the Federation of Appalachian Housing Enterprises (FAHE) is well aware of the multitude of challenges that must be overcome to create lasting, sustainable economic growth that is rooted in the area and brings real benefits to the people who live here.

Whole markets are broken or non-existent in the region, making traditional rules of supply and demand nearly meaningless. While there is a clear NEED for better housing, better jobs, more educational opportunities, the DEMAND for these things must be created along with the supply and it is imperative that supply and demand embed sustainability into every dimension. Well-informed, credit-ready, eligible buyers or renters are needed before new housing stock and affordable housing opportunities will make a difference. Educated, skilled workers are necessary before new employment opportunities will have an impact. An understanding of the value of and hope for the impact of an education must be in place before better access to educational opportunities will make inroads to existing problems. To make matters worse, the rurality and isolation of the region often mean that essential basic infrastructure – water, sewer, roads, police and fire service – is needed before other progress can be made toward economic development. The desperation of these needs do however create an opportunity to transition Appalachia as a leader in sustainable communities. Finally, although there may be an interest in seeing change, many high-poverty rural communities lack capacity to supply needed housing, employment, and educational opportunities on their own even if a demand is present. Developing communities' capacities to identify and provide solutions to their own needs is critical in making lasting change that will stick in the region.

According to the Housing Assistance Council's "Taking Stock" (based on data from the 2000 census), in Appalachia, 30,000 homes lack complete plumbing, 22,000 lack adequate kitchens, and 50,000 are overcrowded. Furthermore, 720,000 families are cost burdened (paying more than 30% of their incomes for housing expenses). Inhabitants of distressed Appalachian counties make up only 0.45% of the population in America, yet the prevalence of substandard housing conditions is three- and even four-times higher than national averages. In Central Appalachia's distressed communities, families are three times more likely to occupy a home without a complete kitchen than in the average American community. Incomplete plumbing is even more common; four times more prevalent as compared to the nation as a whole.

Housing conditions have a significant impact on an alarming trend contributing to wealth-deprivation in the region. "Energy Efficiency in Appalachia," a report that was produced by Southeast Energy Efficiency Alliance for the Appalachian Regional Commission (ARC), notes:

The Appalachian Region's energy consumption is expected to increase 28 percent between 2006 and 2030, compared with a 19 percent increase forecast for the United States as a whole. Research indicates that strong policy interventions will be needed to promote energy efficient purchases and practices that could help the Region meet its future energy needs while ensuring its continued economic and environmental health. (This projection is based on all energy consumption including electricity to residential and, commercial customers, motor gasoline, natural gas). "Energy Efficiency in Appalachia HOW MUCH MORE IS AVAILABLE, AT WHAT COST, AND BY WHEN?" Appalachia Regional Commission Prepared by: Southeast Energy Efficiency Alliance in partnership with the Georgia Institute of Technology American Council for an Energy-Efficient Economy and Alliance to Save Energy

Economic, social, and environmental dimensions in the region create symbiotic and systemic obstacles to prosperity. Median incomes in the region that are below the national poverty line are somewhat attributable to the disinvestment of the coal industry and other agricultural industries, though the region remains engaged in the agricultural economy. As a result, the region's economy has failed to transition into one that is driven by manufacturing, dominant nationally until the 1980's, and is well behind the rest of the country in adapting to the modern, service/information-based economy. Geographically, people are isolated from traditional institutions of industry, education, and culture. As a result, education is under-valued, and a low level of educational attainment is a barrier to attracting or creating new industry and ideas to create wealth in the region.

Because Central Appalachia has long struggled with economic deprivation and few real solutions, there is a lack of hope in many communities that real progress can be made. Local leaders are overwhelmed by multi-sector obstacles that are interrelated and they often don't know where to start making improvements or where to turn for help. Geographic isolation leads to many communities facing their problems alone, re-creating the wheel with each problem they try to solve. With no view of others who share their struggles and little support within communities that doubt positive change can happen, the risk of affecting real growth often seems insurmountable, even for those who want to make a difference. A piecemeal approach to solving problems means that demand for resources is not aggregated, preventing leaders in the region from taking advantage of the effectiveness of scale solutions to address scale problems. Simply put, systems for change are broken or non-existent in Central Appalachia.

Despite the significant challenges to creating wealth in Central Appalachia, FAHE believes there are important opportunities that, if harnessed, can create positive changes in economic, social, and environmental conditions of the region. In recognition of the need for long-term, sustainable, economic development, new national and state policies and development efforts are increasingly integrating energy efficiency and green building strategies with economic development goals. In our role of serving low-income communities in Central Appalachia, FAHE is in a unique position to lead an effort to create a model of green building and financing that will strengthen economic sustainability, housing affordability, and energy efficiency in the region. To accomplish this goal, FAHE will utilize our successful model for collaborative work to engage a variety of stakeholders in creating an infrastructure for green housing construction that will make Central Appalachia a leader in this industry.

Collaborative Model and Theory of Change

FAHE is working toward creating a new Central Appalachia - a place where growth, opportunity, sustainability, and hope are balanced, so that all people can fulfill their potential with regard to housing, health, educational opportunity, and employment. FAHE's work utilizes a systemic approach that builds wealth and other assets for individuals, communities, and the Central Appalachian region as a whole, ensuring that people throughout the area, including children, youth, and families, can lead productive and independent lives. While FAHE has focused on housing as a tactic to affect productive change in the region, our work is about much more than just providing homes. As a practical cooperative made up of many local organizations working to meet the specific needs of their communities with solutions that make sense to them, FAHE is an expert in collaborative work that creates systemic, lasting, positive change for Central Appalachia.

Through this work, through trial and error, through our successes and failures over the past three decades, we have created a theory for positive economic change that we believe holds promise not only for our region, and not only for the affordable housing industry, but also for work across multiple sectors in high poverty regions throughout the nation.

Inherent to FAHE's theory of change are the actors that participate in the process. In our model, we, as an intermediary organization, seek to affect change by providing support, services, assistance, and learning and networking opportunities to leaders and organizations based in specific communities. Local leaders may include public officials, staff of community development organizations, or any other person in the community who is providing a strong voice for change and actively working to improve the community. Community-based organizations may include nonprofits, housing authorities, local government organizations, employment and training centers, area development districts, or any other organization based in the local community and focused on making the community stronger or better in some way.

FAHE's theory for change starts simply – there must be identification at the local level of a problem within a community that needs to be fixed. We have found that change, no matter how positive, will not be successful if it does not address local values of what is beneficial to the community. What an “outsider” has identified as a positive change may not be what the community wants or feels it needs. Results of the work must matter to the individuals and community they impact.

Once a local leader has identified a problem, it is up to the intermediary to help meet the need of the community regardless of the existing level of local capacity, providing initial expertise to ensure early success. This may mean starting at a different place than was envisioned by local leaders. Demand may need to be created, citizens may need to be engaged and educated, funding may need to be found, infrastructure may need to be put in place before a long term vision can be successful. For example, acquiring funding to install a sewer system may be necessary before building homes; new housing stock or municipal services may need to be provided before a bid is made to create or locate a new industry in the community, etc. The intermediary begins by helping community leaders build or repair systems and markets. It is important at this stage to understand that progress can be made regardless of how challenged the community may be. The focus should be on utilizing whatever resources are at hand to make progress rather than on how far the community may have to go to accomplish its goals.

Together, the intermediary organization and local leaders must identify an initial piece of work that is meaningful and is sure to be successful. Failure at this stage of community development is

not an option. No matter how modest the project, it must matter to the community, and be successful fairly quickly. In addition, results of initial work should be highly visible, if not to the community as a whole, at least to local stakeholders. Clear, early success on a project that matters to the community is important to ensuring community buy-in and overcoming the lack of hope prevalent in high poverty regions.

Initial success will also help to build confidence of local leaders and increase the strength of leadership in the community. Once initial success has been achieved, it is important for the intermediary to continue to support local leaders to identify and find solutions to problems. As the next steps are taken toward reaching the communities' identified goals, technical expertise should pass from the intermediary to community-based organizations, thereby building local experts in community development. The intermediary should continue to offer support, technical assistance, and opportunities for learning, but the focus should be on creating, growing, or solidifying groups within the community that will address ongoing local needs.

As local capacity to make positive economic change grows, the intermediary should continue to provide opportunities for growth and learning, creating a culture of challenge, risk, and ongoing improvement for community-based organizations. It is crucial to involve isolated community organizations in networks of similar groups who are addressing needs in other places in the region. Facilitation of networking allows community-based groups to inspire and challenge one another. It fosters an ethic of continuous improvement and encourages results. Perhaps more importantly, it puts an end to isolated problem solving, allowing rural organizations to see the impact of their work on others and to come to understand the importance of working together. Participation in an active network increases the strength and capacity of each individual organization, but each organization also contributes to the strength of the group. With this type of collaboration, it is possible to aggregate demand for resources, creating access to tools that isolated, individual community-based organizations would not otherwise have.

As new or strengthened community-based organizations grow, they will take on further projects within their communities on their own, creating new homes, businesses, and jobs. These projects will increase the wealth of individuals living within the communities. By helping to create and grow community-based organizations to respond to locally identified needs, the intermediary has created lasting assets that will remain in the community. By facilitating participation of community organizations in a larger network, the intermediary helps to create regional assets in the form of aggregated demand, access to scale solutions, and greater impact on funding and policy for the region.

FAHE's theory of change ultimately results in significant regional impact that aggregates demand and resources to create scale solutions that are financially viable, overcoming a barrier that applies to any community development sector in any rural impoverished area. However, for this system to work, it must start at the local level, focus on communities' assets rather than deficits, and be grounded in visible results that matter to the community. Intermediaries must intentionally create a network comprised of the community organizations they serve fostering a culture that values production, local ownership and involvement, collaboration, performance, innovation, peer learning and sharing, intentionality, challenge, risk, and a regional outlook.

Theory in Practice

FAHE's theory for creating effective positive change in rural high poverty areas is based on nearly thirty years of on-the-ground practice in collaborating with a variety of community-based

organizations to provide affordable housing solutions in Central Appalachia. While our theory of change is presented here as an abstract model to demonstrate its applicability across sectors, FAHE's work is rooted in this approach and it defines who we are.

Our tactic for creating change is affordable housing. Our activities include providing affordable business loans and lending capital, grant funding, technical expertise, and project consulting to affordable housing providers. But our strategy for change, informed by our theory as outlined above, includes engaging local leaders to find solutions for their communities that result in outcomes that matter to individuals, to their communities, and to the Central Appalachian region.

These outcomes include:

- wealth creation for individuals through affordable homeownership and rental opportunities;
- asset creation for communities in the form of new local leadership and non-profits; and
- asset creation for the Central Appalachian region in the form of policy change and increased resources.

While FAHE's theory of change is applicable across many sectors and communities, the theory is driven by a focus on performance. The larger ideals must be grounded in practical, measurable outcomes at a scale that is equivalent to existing need. For the past four (4) years, our work has focused on one overarching performance goal: to increase annual production from 2,000 to 8,000 families served per year with affordable housing by our network members by 2015. Our results have been impressive; already we have nearly doubled our annual production with 4,000 units of affordable housing now being produced each year by our Members. In four years, we have increased our annual investment of \$8.5 million (leveraging an additional \$20+ million for a total investment of \$30 million) in Members' communities to \$36 million (leveraging an additional \$48 million for a total investment of over \$80 million).

By aggregating demand we have been able to launch JustChoice Lending providing access to secondary market resources not previously widely available for mortgage lending in Central Appalachia. Furthermore, our organized regional approach based on local empowerment has allowed us to change our relationship with housing funders, creating more impact through partnership with State Housing Finance Agencies. FAHE's collective voice enabled us to be a lead organization in introducing national legislation for a pilot program that will allow housing non-profits to originate mortgage loans with a set-aside of Rural Development 502 Direct funding, substantially increasing efficiency for non-profits in using these critical funds.

Another important outcome that has resulted from the implementation of our theory of change is our development of a clear model for collaborative work. In 2006, FAHE's Members developed "The Berea Performance Compact," a commitment to working cooperatively to provide competitive, standardized professional services where a Member has existing expertise that might be widely marketable. Through the Compact, some Members share core competencies to develop models that can be replicated, allowing other Members to divest administrative functions and focus on their strengths, decreasing costs and increasing efficiency while still providing necessary services to their communities.

Berea Performance Compact work currently focuses on five services:

1. multifamily housing,
2. loan servicing,
3. green construction,

4. manufactured housing, and
5. mortgage lending.

Each compact is organized with an Aggregator or Distributor, a FAHE Member Organization with a core competence that has scale potential, leading the effort. Local Organizations, other nonprofits whose communities would benefit from the offered service but that have less experience and/or capacity to offer the service, also participate in the work.

Each initiative is overseen through *three phases*:

1. ***pilot***, where initial protocols and procedures are identified;
2. ***standardization***, where new programs are tested with initial organizations and systems are refined, and
3. ***rollout***, where additional groups are invited to take advantage of the new service being offered.

The Berea Performance Compact allows Members to work collectively across the region while still tailoring their programs to meet the needs of local communities.

Through the Berea Performance Compact we have learned the following lessons about collaborating to obtain regional results that reinforce and add to our theory of change. We have found that to be successful, collaborative work to obtain scale will:

- *Represent an issue that is critical to all parties involved in the collaboration;*
- *Result in positive, visible results for all partners;*
- *Involve a patient process, and may take longer than work accomplished by a single, organization;*
- *Include access to expertise, mentoring and consulting services;*
- *Require a significant investment by all stakeholders before scale benefits can be achieved;*
- *Require many participants and a willingness to look beyond typical partners for collaboration;*
- *Require capacity and passion from leaders to help influence the values and mindset among stakeholders with respect to scale;*
- *And require flexibility and innovation from participants in understanding how to apply products, services, and lessons learned to their own communities.*

While Berea Performance Compact work has been important to improving performance and impact, it has also provides an effective model for undertaking ongoing collaborative work.

Green Compact

Late in 2008, FAHE launched a new BPC initiative around green construction.

Soaring fuel prices have left many low-income families in Appalachia, particularly those who live in substandard or older homes, with housing that is no longer affordable due to increased energy costs. Monthly fuel bills that exceed \$500, often more than the cost of rent or house payment, are not uncommon. As noted in the above mentioned “Energy Efficiency in Appalachia Report” produced by Southeast Energy Efficiency Alliance, energy consumption in Appalachia is expected to increase at twice the rate of consumption of the United States. This growing problem is a real threat to the low-income families we serve, and if solutions are not found, it will undermine opportunities for creating wealth that sticks with these families and the region.

As we began encountering first-hand the struggles of low-income people in their communities to afford increased fuel costs, many of them began to address sustainable housing issues within their own programs. Understanding that this was becoming a critical focus for our region, developed a formal BPC initiative around green construction to support and strengthen the efforts of our Members and to look for ways to create scale in relation to green housing production. Green housing provides important benefits to the environment and to homeowners and renters – particularly to those with low-incomes for who increases in sustainability and energy-efficiency result in critical monthly savings on housing bills. At the same time, green construction involving new technologies and materials has the potential to result in new “green collar” jobs in our region.

We have issued a green building challenge to our Membership and many of our Members are participating in the Berea Performance Compact Green Housing Initiative to increase their capacity to provide green homes. Our initial work has made us aware of obstacles to increasing green housing production, such as the lack of certified green standard appraisers, the lack of funding to cover additional expenses involved in design and construction, and the lack of knowledge around how to incorporate sustainable standards and practices. It became clear that in order to achieve our goal of increasing production of green, energy-efficient homes, FAHE would need to engage the participation of partners beyond the housing sector.

Just as FAHE’s Members have been working to incorporate green building standards during the past several years, environmental organizations, utility companies, and colleges and universities in the region have been looking at ways to increase energy-efficiency and sustainability of new and existing housing; but there has been little if any coordination in these efforts. Instead, most organizations have developed individual approaches and programs to address the problem, and have not addressed the issue of sustainable, eco-friendly housing in a systemic way. Several substantial systems exist to support energy efficiency and green building practices on the national level, including Home Energy Rating Systems (HERS) and green building rating systems, financing for energy-efficient homes, and higher education efforts and programs. These programs and efforts offer useful examples for enhancing and replicating training and employment opportunities in Central Appalachia. However, none of these systems were designed specifically for use in our rural, high-poverty area and we are finding that there are barriers for our Members to utilizing many of these systems.

Future of Our Work

As a result of our long-term commitment to change in Central Appalachia, we have seen many of our Members grow from new housing organizations, celebrating the success of their first new home in their communities, to advanced community development practitioners leading the search for multi-sector solutions to their communities’ needs. It is a natural extension of affordable housing development to create growth in a community that eventually leads to other types of community development work and calls for expertise from other fields. Likewise, changes in communities resulting from work in economic development and educational attainment efforts can lead to the need for new and different types of affordable housing.

FAHE has begun to look for ways that we can use our expertise in collaborative work to facilitate partnerships with other community development sectors. We strive to inspire and challenge our Members to look beyond housing alone to intentional multi-sector partnerships to creating more effective solutions for their communities. We are exploring the possibility of

utilizing our approach for local leadership development and the Berea Performance Compact model of collaboration in other community development sectors. In addition, we are in discussion with economic development experts in our region about launching a green housing initiative that will create new, “green collar” jobs, contribute to a value chain for products produced in Central Appalachia, and create affordable housing.

There is a growing realization of and interest in the importance of sustainable environmentally-friendly housing to the economy and the environment on a regional and national level. This trend has created emerging funding and other support opportunities for the production of green housing. By intentionally creating a system that engages multi-sector partners in utilizing existing strengths and resources and bridging existing gaps in the Central Appalachian region, we can create a regional systems approach to green housing that will produce sustainable housing solutions at scale. This will position Central Appalachia to be at the forefront of the sustainable housing industry, providing national leadership and best practices for rural AND urban areas throughout the nation.

To replicate this model funding would need to be targeting over five years for a in three ways. First and foremost is capacity building and working capital grants for local organizations. Second would be funding for technical assistance, and coordination. And finally, capital to establish a revolving fund to leverage market rate resources.

Based upon our long experience in providing affordable housing to families in poverty, we know that this approach leads to increased stability, enhanced community involvement, increased revenues for communities, and sustainable wealth that sticks with families and communities.