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Sub-Prime Mortgage Woes Worry Urban Warrior

BY LIZ PEEK
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Michael Rubinger, chief executive officer of Local Initiatives Support Corporation, is worried about rising defaults in the subprime mortgage market. His viewpoint, however, is somewhat different:

"The danger is that a lot of communities that have recovered could see another wave of houses being abandoned and boarded up. If we begin to see trouble, we want to nip it in the bud."

Little has been written about the mortgage-market crisis's potential to unwind the hard-fought battle against urban decay, whose successes have revitalized so many cities. One of the warriors in that battle has been LISC, an organization that is not well known despite its broad reach and illustrious chairman of the board, Robert Rubin, a former Treasury secretary.

LISC is one of the reasons that urban blight, considered one of the nation's gravest threats in the 1970s, is now a back-shelf issue. Over the past 25 years, the organization has partnered with community groups across the country, arranging financing and technical support for targeted building projects. It has been responsible for more than \$17 billion in development spending. Among LISC's contributions to the country's now-revitalized neighborhoods have been 27 million square feet of community and retail space, 196,000 affordable homes and apartments, 136 playing fields, 70 schools, and 120 child care facilities.

The organization is a stepchild of the Ford Foundation, which experimented with the concept in the 1970s. At a time when the economy was weak and crime rates were high, decayed neighborhoods proliferated. Since the abundance of abandoned houses and commercial spaces were thought to be part of the problem, fixing them up became part of the solution.

LISC, launched in 1980, broke new ground by involving the private sector in work that previously had been done by government. In the 1980s, as the federal government began to retreat from financing local community development, the role was taken over by state and city authorities. The timing was perfect for LISC, which sought out nonprofit community groups in need of financing, and secured grants and loans for specific development projects from the likes of JP Morgan Chase, the Kresge Foundation, and Washington Mutual.

Mr. Rubinger, who became president of LISC in 1999, initially was skeptical. "I thought it was the most unlikely thing in the world," he said. "I was wrong. Done properly, the private sector would not lose money, but in fact make a return."

New Yorkers have long benefited from the results. "New York City has had one of the largest commitments to community redevelopment in the country," Mr. Rubinger said. "It started with Mayor Koch, who wanted to see every housing project revitalized. The city came to LISC."

In some cases, the rebuilding efforts, combined with a surging economy, have been so successful, Mr. Rubinger said, they created a different kind of problem, of which Harlem is an excellent example.

"Harlem was terrible in the late 1980s. As the neighborhood improved, prices went up, driving out the people we are trying to help. They were the victims of our success. We're working with community groups to discourage them from flipping the properties as tax credits expire," Mr. Rubinger explained.

LISC is now 25 years old, and in commemoration of that anniversary, the organization has rethought and broadened its mission. Recognizing that falling-down and crime-ridden buildings are not the only threats to healthy communities, the group has begun to invest more widely.

"We're trying to become more comprehensive," Mr. Rubinger said. "A lot of communities still have affordability issues, but now we are also looking at sustainability. We're looking at schools, health care, and safety. We are emphasizing retail, job placement, and charter schools."

For example, such efforts have led to working with the Seattle police department to drive down the crime rate in an area where an organization called HomeSight had built houses in the mid-1990s. Local gangs had begun to threaten the long-term viability of Seattle's southeast side, so in 1999, Home-Sight brought in LISC, which helped forge an enduring partnership between local law enforcement and the community.

The new strategy has also taken LISC into the retail arena. Vibrant stores are essential to successful neighborhoods, it believes, because they create jobs and street traffic, which boosts local safety. One such LISC venture was building a Pathmark store on East 125th Street in New York.

"It was a tough sell in the company," Mr. Rubinger says. "They weren't sure it would work; now it's one of the most profitable stores in the chain. There's been a lot of development in the area since the store went in."

These days, Mr. Rubinger worries that it's become too easy for his organization to arrange financing for projects. LISC lent \$160 million to various programs last year, up from \$120 million in 2005. When about \$660 million in equity investments raised from corporations and from grants is added, LISC provided more than \$1 billion to projects around the country.

"Getting bigger is not the goal," Mr. Rubinger said. "We should be doing only those things that others won't do. If we find ourselves in areas where the banks want to lend, something's wrong."

"We have to keep looking for the new challenge, the new frontiers," he stated. "We have to keep an eye on our mission."