

## **Northeast Kentucky: Frontier's Traditional, Core Service Area**

Since 1974 Frontier Housing has been proud to serve counties in northeastern Appalachian Kentucky including Bath, Carter, Elliott, Fleming, Menifee, Morgan and Rowan Counties. In recent years, our service area has grown to include Magoffin and Wolfe Counties and the City of Ashland. These nine counties and one city make up our traditional, core service area, and continue to be the heart and focus of our work today.

Over the years Frontier has become the largest residential builder in our service area and the largest non-profit builder in Kentucky. We have built over 800 homes and have assisted over 1,000 families with housing solutions – a new house, a rental unit, or a home loan. Further, we have a track record of ensuring sustainable homeownership with an annual average loan delinquency rate of less than 3%, and an historical foreclosure rate of less than 1%. We have proven that when quality products are coupled with responsible lending, low-income families can be successful homeowners. Beyond our products and services, we have strived to give people encouragement and hope, and to be a positive force in our community. In doing so, our organization itself has had a long life, with an ability to adapt and change over the years which gives us confidence regarding our future.

Our traditional, core service area is our historical bedrock. It is where we have the deepest community connection, it is where we have pioneered our products and services, and it is where we hope to have even more impact in helping people find good, decent places to live. In, the most fundamental way, it is our home.

## **New Opportunities in Manufactured Housing – For Northeast Kentucky and Beyond**

At the same time, our experience as a community housing nonprofit in northeast Kentucky has enabled us to build relationships and participate in larger networks at the state, regional and national levels. Through these networks Frontier increasingly is being called upon -- and has embraced the opportunity -- to test innovations, share experience, and shape policies to help the entire field of affordable housing meet increasingly tough challenges. Our role as an advocate and innovator on a regional and national level is one of our current strengths, and pursuing this role will allow us to bring additional resources, knowledge, and attention to the important work we do in our traditional, core service area.

Of most immediate relevance, we have entered the manufactured housing arena with a focus on developing quality, affordable housing solutions that will assist us in meeting the needs of our core service area. Our dedication and innovation in this field have garnered attention for Frontier on a national level. NeighborWorks® America, Fannie Mae, Corporation for Enterprise Development and the Ford Foundation's Innovation's in Manufactured Housing (I'm Home) program have provided support, encouragement, and funding to Frontier to continue our work with manufactured housing.

Over the past two years we have developed a unique manufactured housing product of superior quality and design. We have coupled this product with a responsible financing approach that ensures homeownership is sustainable and that homebuyers can earn equity in their manufactured homes. To date, twenty-two houses have been set both in scattered sites and at the Edgewood development, a carefully designed 44-lot subdivision where attention to detail, cohesive aesthetics, desirable amenities and affordable quality meet. The Edgewood Community is a demonstration in wealth creation for manufactured home owners. The project has been planned to provide future equity for homebuyers through the use of good community design, thorough homebuyer education resulting in prepared homebuyers, quality products, and responsible and appropriate loan finance.

Manufactured housing allows us to offer an extended product line and to substantially decrease the time it takes for people to walk through the front door of their new homes. It has become an integral part of our offerings, and we are steadily building our expertise as designer and installer.

Frontier is excited to have become the first non-profit retailer for Clayton Homes, a Warren Buffet-owned company that is the nation's leading producer of quality manufactured housing. We have the opportunity to become an aggregator of non-profit demand for Clayton in many states, and we also have the opportunity to provide technical assistance services to other non-profits interested in manufactured housing.

### **Two Businesses Within One**

So as we consider our plan for the next few years, it has helped us to view two separate, but linked, business opportunities that co-exist within our current operations:

- The first is our core service area business -- our traditional sphere of operations in northeastern Kentucky that includes the use of stick-built and manufactured housing.
- The second is our manufactured housing dealer opportunity with Clayton Homes

These opportunities have very different business models, core competencies, types of customers, and supporting partners.

To date we have made considerable progress with existing staff working on both business opportunities. But we are bumping up against the limitations of this structure, and the remainder of this plan will treat these two areas as separate opportunities – each with its own unique set of challenges and benefits.

### **Increasing the Impact of Our Traditional Operations in Northeast Kentucky**

#### *Challenges and progress*

Our traditional business has gone through a series of challenges in recent years.

This has been caused largely by funding declines at the federal and state levels that accelerated, and made major change mandatory. The funding declines forced us to take a very hard look at our business, and we uncovered opportunities to reduce the time frame for serving customers, to reduce costs (and therefore the appraisal gap per house), and to become more customer-focused with regard to design options.

We restructured our operations, contracted out much of our construction work, introduced manufactured housing, and made a strong commitment to face what the author of **Good to Great**, Jim Collins, calls the “brutal facts.”

In fact, we believe that this willingness to face and accept change based on facts is a core competency of our organization. It has stood us well in a harsher funding environment.

*Moving ahead with even greater impact*

With renewed emphasis on our traditional, core service area, we commit to **doubling our impact over the next five years—with over 200 families** receiving housing solutions from us each year through creation or preservation of a house, a rental unit, a loan, or foreclosure avoidance by 2013.

To accomplish this goal, we will need to continue building our capacity – through initiatives to further reduce cost, create a better customer experience, build financial strength, deepen ties to our local community, and continue our own organizational culture change process. In order to be successful, we will:

- Continue to reduce cost by instituting design efficiencies and increasing volume. As we have moved along the learning curve, we have already reduced costs. But we must take this further with a commitment **to reduce our home prices by \$10,000, which represents a 10% reduction of our average development cost.** We will accomplish this cost reduction without compromising our outstanding quality.
- Continue to emphasize a focus on our customers. Customers have many choices in today’s marketplace; for example, there are 49 dealers of manufactured housing within 50 miles of our office! We plan to undertake the following actions to increase our attractiveness and ability to successfully compete in our market:
  - Reduce cycle times for all our key housing solution processes. **We are committed to consistently providing housing solutions within 120 days of the time a credit-ready customer first walks through our doors.** Our commitment to service covers all customers whether they are seeking mortgage loans or homes, site-built or manufactured houses.

- Develop products that are accessible for those with the lowest-incomes. This will include introducing new high quality, low-cost housing alternatives such as single-wide manufactured homes incorporating Frontier's quality upgrades. This focus will help us to find ways to continue serving Frontier's traditional lower-income customer base of households with incomes below 50% of area median income.
  
- Increase the homeownership conversion rate significantly among well-qualified customers. Specifically, we will increase the percentage of credit-ready customers who are able to find a solution through our products and services. As of June 30, 2007 our homebuyer conversion ratio of credit-ready customers was 25%. **We will increase the homebuyer conversion ratio of credit-ready customers to 75% by June 30, 2008.**
  
- Effectively target homebuyer readiness levels and provide homebuyer education, so that 25% of customers needing moderate counseling and credit repair will improve their credit rating at a satisfactory level to qualify for homeownership within 180 days.
  
- Introduce new plans, community designs and projects that reflect customer desires and preferences. We will increase our energy efficiency and commitment to green design. New developments within our existing core service area will include Phase II of Ashland's Pollard Mills, Big Woods Planned Unit Development, and Ashland's neighborhoods adjacent to King's Daughter's Medical Center.
  
- Survey customers annually to measure our performance and to gauge how well we are meeting our customers' needs, preferences, and desires.
  
- Build financial strength. To do so, we will first and foremost diversify funding sources and increase our unrestricted monies in order to reduce dependence on government subsidies. We will accomplish this by:
  - **Tripling the percentage of private, corporate and individual contributions from 7% to 21%. We will increase our fee driven revenue to 46% while reducing our dependence on federal grants from 51% to 33%.** These goals will be achieved by 2013.
  
  - Expanding our commitment to the Berea Performance Compact – a cooperative agreement among Federation of Appalachian Housing Enterprises members to utilize existing expertise to increase the capacity of groups with limited capacity in four specific areas: manufactured housing, loan servicing, multi-family housing production, and volunteer management. Participation in the Berea Performance Compact will expand

Frontier's cooperative business opportunities with our FAHE partners and maximize our core competencies to build scale in our program delivery. We currently lead the team working on manufactured housing, providing technical assistance, product delivery, and program design to other FAHE members who wish to utilize manufactured housing. Additionally, we participate in the loan servicing initiative by contracting with FAHE to service our loans at a significant cost savings. We also participate in the multi-family housing initiative by utilizing the expertise of our FAHE partners to provide development and management services in our multi-family rental projects. We will join the Volunteer Appalachia initiative developed through the Berea Performance Compact to bring volunteers to our region through FAHE members.

- Continue to deepen ties to our local communities throughout our traditional, core service area in the following ways:
  - Frontier will continue and grow the programs which have made our communities strong. By continuing and expanding the provision of quality affordable housing that builds the local tax base, we support our schools, services and local governments.
  - We will partner with Morehead State University to undertake joint projects, such as affordable rental housing for single-parent households with supportive services, service-based learning, and student volunteer projects.
  - We will participate in a local economic development strategy by partnering with regional leaders to provide workforce housing located near regional industrial parks and employment centers.
  - We will assist in building stronger downtowns where housing is integral to downtown preservation strategy.
  - We will increase our community impact by partnering with other nonprofits to provide rehabilitation and repair services that will improve housing for 300 families.
  - We will actively work to reduce homelessness in our region by strengthening ties to existing organizations that provide services for homeless populations. In addition to providing homeownership as an important option on the housing continuum for homeless households, we will actively work to prevent homelessness through the provision of comprehensive delinquency and foreclosure prevention counseling.

- By 2010, we will launch Success Measures, a NeighborWorks® America sponsored national web-based program evaluation tool to document outcomes, measure impact and inform change in the community development field.
- Continue the cultural change at Frontier to be increasingly adaptive to changes in our environment, to work together across functions more effectively, to continue streamlining our business processes, and to offer growth opportunities for our staff. We have made considerable headway in addressing the “brutal facts”. We need to continue efforts to “be adaptable” to change, and to see opportunities where others see barriers.

We know our employees are at the heart of our future success. We will continue to strive to be a great place to work and a model employer. Like any other organization, Frontier will ensure there is good “bench strength”, and that there are plans in place to handle succession at all levels. We will continue to pursue development opportunities for existing staff, and we will create opportunities for new and emerging leaders. Our tradition is our namesake; we push the limits and we reward those who produce excellence and innovation.

In coming years, therefore, we hope to see more satisfied families; more innovation in the way we do things; simplified business processes that are easier for everybody; and a well-financed organization that is increasingly independent of “shifts in the funding breezes.”

## **Manufactured Housing: An Emerging Opportunity Based on Scale**

Frontier entered the manufactured housing arena in 2005 with the aims of:

- Increasing customer choices;
- Reducing the time it takes our customers to move into their new homes;
- Reducing cost.

While manufactured housing had the potential to solve a business problem for Frontier, it also became clear that it could help solve the problems of at least some consumers of manufactured housing in northeastern Kentucky. Frontier saw an opportunity to make improvements in the manufactured housing delivery system that would overcome: (1) poor product quality, (2) misleading claims regarding what actually is being purchased, and (3) predatory and subprime financing.

We entered into a relationship with Clayton Homes, and became the first and exclusive dealer of manufactured housing to the nonprofit industry. We developed a high quality product that is consistent with our values, and have come into national prominence in the affordable housing arena with our initial efforts.

We find ourselves at a fork in the road. With modest changes, we could continue to offer manufactured housing within our traditional service area, and also provide some service and technical assistance to fellow FAHE members and others within a limited geographic area as interest mounts. Technical assistance would include training and on-site supervision when manufactured housing units are set; recommendations on financing design and sources; and minimum standards for quality and financing to provide manufactured housing with the aim of wealth creation.

At a more substantial level, we have the opportunity to create an entity that would:

- Market manufactured housing to the affordable housing industry;
- Aggregate demand and package it to the manufacturer;
- Offer paid technical assistance to nonprofits as they consider offering manufactured housing and as they learn “how to do it” on the ground;
- Help formulate policy regarding manufactured housing at a state, regional, and national level;
- Create quality specifications, incorporating universal design and aesthetic design that attracts the best conventional financing and enables wealth creation

As a result, we have a unique opportunity, in a limited time window, to offer what one person describes as “a branded solution for manufacturing housing done right”!

Substantial questions have been posed that need to be answered in coming months. For example:

- What is the appropriate business model that offers a fair deal to non-profit customers and to Frontier? Is it sustainable?

- Who should be the proper owner/operator of the opportunity? Frontier could serve as both owner and operator on the one hand, or as a licensor to a separate entity at the other extreme.
- What is the relationship of this opportunity to our traditional business? Is it a cash generator? Can the Morehead business serve as a “pilot franchise” to continue learning and testing innovations in product and service development? Is it a distraction?

Therefore, our goal now would be to reach a decision on whether to pursue this opportunity during 2007, as well as to decide how we would actually get started in a more substantial way for increased impact in 2008 and beyond.

More specific goals and strategies will be developed in coming months.

### **Exciting Times Ahead**

With renewed commitment to our traditional communities, we will deepen the ties that bind us each to all. We will become stronger as we face our own realities and “brutal facts.” We commit to organizational excellence—always reaching, adapting and striving for greatness. Our ability to innovate and adapt has led us to an exciting, emerging opportunity. We have paused at this fork in the road, and our choice may make all the difference.