

San Jose Mercury News

50 CENTS | VALLEY 100

SERVING NORTHERN CALIFORNIA SINCE 1851

MERCURYNEWS.COM

OCTOBER 6, 2008 | MONDAY

THE NEWSPAPER OF SILICON VALLEY

Financial lessons from non-profit community groups

By Phillip Kilbridge

"Greed, for lack of a better word, is good. Greed is right. Greed works." This according to the Michael Douglas character Gordon Gekko, as he made a compelling yet disturbing case for his financial excess in the movie "Wall Street" more than two decades ago.

With a \$700 billion government-sponsored "rescue" on the books, we can reflect on this statement in the context of the implosion of the housing and credit bubble. Was greed the influencing factor? How could it have been mitigated?

In non-profit organizations, we frequently hear, "How can you run your organization more like a business?" For all of us in well-run community organizations, there are good answers to this question. We

SPECIAL TO THE
MERCURY NEWS

pay close attention to the bottom line financials, we track return on investment for donors, we measure homes built, volunteers utilized and families served and we are supported by an intelligent and motivated board of directors.

Yet, in this time of government handouts, overextended credit markets and questionable business tactics, it's not unreasonable to flip the question and ask, "How can a business be run more like a community-based organization?"

At the end of the day, non-profits must produce on a double bottom-line. It's not just about running in

the black financially, it's about the success of those we serve. If families and individuals can succeed at pulling themselves out of a cycle of poverty, then our work has been successful. Might I suggest that businesses can learn from some of the truisms of our work?

Give a hand up, not a hand out. Offering "liar loans" and 105 percent financing might be reasonable mortgage vehicles to make money on the front end, but that handout can be ruinous in the long run. Successful organizations understand that an investment from the client means a greater opportunity for success. For example, the Earned Assets Resource Network (EARN), creates incentives for people to save for the long term because their cash investment is matched toward an ultimate goal. Most EARN savers spend from three to five years in the program — earning financial management skills, putting aside an average of \$75 a

month and developing specific plans to achieve their asset goal.

Similarly, Habitat for Humanity requires selected families to invest 500 hours of "sweat equity" to build their own homes. And with a zero percentage interest mortgage, families become homeowners through hard work, not charity.

Short cuts are not the answer. Effective non-profits don't take short-cuts, and neither should businesses. In the Habitat for Humanity model, families who apply to become homeowners are required to attend community orientations to learn about the program and to understand the high expectations for homeowners. Applicants must supply all current financial statements, three years of tax returns, a strong credit history and an extensive written application — all to prove their ability to pay a zero percent interest mortgage.

Education. Education. Education. Home ownership can be scary

— no matter what your income. Our affiliates in Silicon Valley, the East Bay and indeed around the country, take care to educate our families about the rights and responsibilities of home ownership through a year of workshops. Families learn about home upkeep and repair, the threats of predatory lenders and budgeting and money management. I can't help but wonder if we would be facing the same level of foreclosures in this country if more lending institutions adopted this model.

All of the above are accomplished when intelligent leaders exercise their fiduciary responsibility and manage appropriately. Community-based organizations are not a panacea to the recent excesses on Wall Street, but greed is rarely a driving force in our work.

Contrary to Gordon Gekko's entreaties, sound business practices can provide sustainable long-term results much better than greed.

Phillip Kilbridge is executive director of Habitat for Humanity Greater San Francisco, which builds homes in Marin County, San Francisco and on the Peninsula. He wrote this article for the Mercury News.