

# THE HISTORY OF THE NATIONAL DEVELOPMENT COUNCIL

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## AN EXCERPT: THE FIRST HALF – 1969 TO 1985

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### Preface

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The tools and ideas presented...are for destroying the illusion that the world is created of separate, unrelated forces. When we give up this illusion--we can then build "learning organizations", organizations where people expand their capacity to create results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together.

*The Fifth Discipline*  
*Peter M. Senge*

Learning organization was not part of the nomenclature in 1969 when Sam Beard's Capital Formation (the original non-profit) was founded, or in 1972 when Sam started the National Development Council (NDC). Nevertheless, Capital Formation and NDC have many of the qualities of Peter Senge's 'learning organization.' NDC has always been a mission driven organization. Its original vision was *to create systems that brought new capital, new investment and new jobs to underserved urban and rural communities throughout the United States.* In the process of staying focused on that vision, NDC continues to exhibit many qualities of Senge's 'learning organization:'

- NDC is an organization "where people expand their capacity to create the results they desire" and "where collective aspirations are set free"---NDC from its inception has been a mission driven organization deriving extraordinary creativity from its focus on mission.
- NDC is an organization where "expansive patterns of thinking are nurtured"---NDC from its inception has been an organization where thinking outside of the box has been the norm for the development of its process, services and products.
- NDC is an organization "where people are continually learning how to learn together"---NDC, from its inception, has encouraged its staff to think of what could be, not what is.

The organization of this history is simple. It begins with the initial values and vision of the founder and current Chairman of the Board of Trustees, Sam Beard, and continues through the maturity and application of those values and vision through the decades of the 1970's, 1980's, and 1990's and into the 21<sup>st</sup> Century. This history utilizes NDC's formal (written) and informal (oral and experiential) institutional memory to create a written history of the Who, Why, What and How of NDC. I was privileged to be a staff member of NDC from 1982 through 2000.

### **The Context of the 1960's**

The curse of poverty has no justification in our age. It is socially as cruel and blind as the practice of cannibalism at the dawn of civilization, when men ate each other because they had not yet learned to take food from the soil or to consume the abundant animal life around them. The time has come for us to civilize ourselves by the total, direct and immediate abolition of poverty.

*"Where Do We Go From Here: Chaos or Community?"  
Rev. Martin Luther King, Jr.*

Capital Formation and NDC are, in their purpose and values, very much 'children of the 1960's'. Great social and political breakthroughs and upheavals occurred during this decade--the passage of the Civil Rights Bill in July 1964, passage of the Voting Rights Act in August 1965 and America's space program reaching the moon in less than ten years after President John F. Kennedy's challenge to do so. The 1960s was also a decade of tragedy, the assassinations of President John F. Kennedy, Rev. Martin Luther King, Jr. and Senator Robert F. Kennedy and the Vietnam War. It was a decade where poor people and people of color took to the streets in three summers of urban riots to protest the inequalities experienced by the urban poor.

During the last three years of his life, Dr. King concerned himself with the issues of persistent racism, urban decay and poverty. As the above quote from his final book illustrates, King was moving his non-violent movement from a focus on basic rights for African-Americans to the issue of poverty within America's urban and rural communities. Dr. King was not the only force in America concerned with poverty and the myriad of problems facing urban areas and poor rural communities. As early as 1962, The Ford Foundation was raising the issue and in 1964, the Federal Government began, its "War on Poverty" which included the creation of VISTA, Job Corps, Community Action, Head Start and Legal Services. By 1967, the National Association of Development Organizations (NADO) was created and regional community and economic development had its first public interest group.

The content is not mine alone. The content, of course, does reflect my own experience of NDC but it is my intention in writing this history to also reflect the experiences of my NDC colleagues as well as NDC's clients.

This history is about who NDC is and describes its growth into the organization it is today. This is a point in time history--from NDC's beginning in 1969 through 2005.

Mary Jo Ruccio  
Union, Kentucky  
January 2006

## Introduction

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"Some men see things as they are and say why.  
I dream things that never were and say why not."  
Senator Robert F. Kennedy

This vision of Senator Robert F. Kennedy, that anyone can make a difference, fired the imagination of a 26-year-old Sam Beard in 1965. Sam worked in Senator Kennedy's New York City office where the Senator's vision was daily lived. The excitement and commitment of this vision has permeated all the work that Sam has done over his life. This vision also provided a foundational principle for the National Development Council: *that if you see something wrong you can make it right*. For Sam and for NDC, *what is wrong is poverty*.

There is an "NDC Saying" that the root of poverty is not having enough income, and that the solution to ending poverty is a job that pays a livable wage for every citizen. That may read like a trite truism, of course poverty is about not having sufficient income but within NDC it is not trite and it is not a truism---it is the mission. The saying is a reminder of the who, what and why of NDC.

In 1967, Sam left Senator Kennedy's direct office and became one of the first employees of the Senator's Bedford-Stuyvesant revitalization project. Bedford-Stuyvesant is one of Brooklyn's poorest urban communities. Senator Kennedy invited Senator Jacob Javits to co-chair and pioneer in its revitalization. The Bedford-Stuyvesant Restoration Corporation (BSRC) is recognized as one of nation's first community development corporations (CDC's).

After the assassination of the Senator in November 1968, Sam left Bedford-Stuyvesant and founded Capital Formation, which grew into NDC as stated above. There are three words that describe the efforts each of these not for profit organizations: capital, results and inclusion. Regardless of the official name of the organization, the guiding principles are the same: capital formation and accessibility (capital), putting capital to use with a minimum of red tape and bureaucracy (results) for all people regardless of race, religion, sex or economic status but especially to people of color and to small businesses (inclusion).

NDC exists to end poverty and every program it creates and implements, every training program it creates and conducts, every small business or housing deal it structures and finances is motivated by the belief that each of these activities produce a RESULT, that each of these activities are creating jobs and ending poverty.

This is 2006 and although NDC has been in existence for 37 years the culture of the organization has remained the same. It has remained a culture where the goal is always to "**Do Good.**" That goal has allowed NDC to respond without its own internal bureaucracy creating roadblocks so when an economic

development or housing need is identified within a community or within the country, NDC can act with excitement, creativity and quick results.

Together with the mission to end poverty and a goal to “Do Good” NDC has always had a standard of excellence that begins with its own staff. There is another “NDC Saying” that community-based organizations and low-income communities have a right to the same skills and excellence as say, a Citibank. NDC lives out that saying by hiring the same caliber of professionals that a Citibank hires and makes them available to communities and training participants who could never afford to purchase that level of expertise in the marketplace.

As you read this history I hope you will experience the vitality and spirit of NDC, how holding a vision of ending poverty for 37 years has made NDC a day-by-day, deal-by-deal catalyst for change. A catalyst to change the way capital is available, investment occurs and job growth takes place within low-income communities and by example, therefore within the nation as a whole, a catalyst to end poverty.

## **Capital Formation: 1969 - 1972**

Capital Formation was incorporated in 1969 as a New York not for profit organization. The first task of Capital Formation was to focus on minority business ownership.

***In 1968 all the banks in New York City loaned less than \$1 million dollars to minority-owned companies. At that time, the assets of the New York banks exceeded \$80 billion.***

### **The First Deal**

Sam's desk mate in Bedford-Stuyvesant had a cousin in need of a loan for an expansion of his business. Johnson Folding Gate was a minority-owned business and Sam took it upon himself to link the owner with a bank that would lend him the money he needed. Although Sam did not have a financial background, like many of NDC's future students, during this 'loan packaging process' he learned the importance of being able to speak 'bank language' in order to have a loan approved. The business could need the loan, even be able to repay the loan and collateralize the loan but if the information from the business's balance sheet and profit and loss statements were not presented to the bank in a manner consistent with their policies, the loan would not be approved. This first loan was a struggle but with its approval and with this first successful deal under his belt, Sam began to recruit volunteers from the banking sector to assist him in finding businesses in need of capital and 'putting deals together'.

### **Small Beginnings**

Sam started Capital Formation in his two-room apartment. He installed seven phones and started recruiting volunteers to set up a loan-processing center. Sam linked each volunteer up with a different Black or Hispanic business. Within 120 days, Sam and his volunteers were working with more than 123 minority-owned businesses. Six loans, totaling \$260,000, were approved.

### **Catalytic Impact**

Within three years, Capital Formation had mobilized over 3,000 volunteers, including Dick Jenrette of Donaldson, Lufkin and Jenrette, and the principal partner of Price Waterhouse. Capital Formation was invited to manage the minority-lending program for the New York Urban Coalition.

***By 1972, the New York banks were lending at an annual rate of \$30 to \$40 million per year.***

## The First Presidential Program

In 1969, there were 36 minority-owned banks in the United States with total deposits of \$405 million. These banks made \$60 million of loans to minority-owned businesses.

At that time, the majority banks had \$800 billion in assets and stated that they were lending \$100 million to minority-owned businesses.

***With one fifth of one percent of bank assets, minority banks were responsible for 37% of loans to minority-owned businesses in the United States.***

Sam Beard read in the Wall Street Journal that Fortune 500 companies such as IBM and Glen Alden were putting deposits into minority-owned banks to increase their lending capacity. He reached out to Whitney Young, head of the National Urban League, to create a sustained program to multiply these efforts.

Sam and Whitney were not getting their desired results.

In 1969 newly elected President Richard Nixon had campaigned on Black Capitalism. Al Stern, a New York businessman friend of Sam's, suggested he go to Washington to enlist President Nixon in Capital Formation's bank deposit initiative. As a Kennedy Democrat, Sam scoffed at the sincerity of President Nixon's intentions. Al rejoined, "So, why don't you keep on doing nothing?"

Sam swallowed his pride and went to Washington. He began working with Alan Steelman, the Executive Director of the President's National Council on Minority Business Enterprise. Steelman was a young Republican from Dallas brought to Washington by Sam Wyly, one of the President's chief financial supporters. Both Beard and Steelman were not political and simply wanted a result.

Within 12 months, Steelman reviewed Beard's proposal and escorted Beard to the White House to meet with Special Assistant to the President, Leonard Garment, to obtain Presidential approval.

**Leonard Garment set the President's goal at \$100 million – a 25 percent increase in total deposits in minority banks – to be achieved within a year.**

With a staff of three, Capital Formation made over 1,500 visits in 30 cities in a 12-month period. On time, Capital Formation delivered \$155 million of new deposits, but an additional \$100 million was on the way.

## **Catalytic Impact**

***Capital Formation received a congratulatory telegram from President Nixon stating that this was “the largest transfer of economic resources into minority-owned economic institutions in the history of the United States.”***

After the success of the initial effort, Capital Formation went on to other initiatives. Others assumed the leadership.

***The number of minority-owned banks tripled to over 100, and the deposits reached a peak of over \$2 billion.***

## **The Transition to NDC**

In 1972 Sam spun off Capital Formation which was processing minority-owned businesses in New York City to minority ownership.

He formed NDC to bring the programming national and to go beyond minority-owned initiatives into small business job creation and later housing financing.

## **The Second President Program – Minority Insurance Program**

Sam Beard jokes that after the success of the President Nixon bank deposit program, he realized that more people had heard of the President of the United States than the National Development Council. From then on Beard took the programs that NDC was working on and sought to make them official programs of the President with letters coming from the Oval Office stating that these were high priorities of the President.

The vision was always about numbers, results, being a catalyst and having an impact in low income communities. The Presidential seal of approval made that possible. In Washington, DC Sam became known as “the Billion Dollar Kid.” The label was never positive. But Capital Formation and NDC never missed the \$ billion goals and then the back biting would stop.

Based on the success of the Minority Bank Deposit Program, NDC researched the impact of minority-owned insurance companies in community building across the country. The minority insurance companies were the largest Black-owned businesses in America and were responsible for substantial economic and housing development in low-income neighborhoods.

Working with Eliot Richardson, the Secretary of Commerce, Sam created the second NDC presidential program under President Gerald Ford.

## **Catalytic Impact**

The presidential goal was to increase the insurance-in-force by \$5 billion. NDC staff met with major US Corporations requesting that they purchase insurance from minority-owned companies in order to increase the insurance-in-force of minority-owned insurance companies.

***During the two year program (1972-1973) the insurance in force in minority owned insurance companies more than doubled from \$8 billion to \$17 billion.***

## **Small Business Administration (SBA) 502 Loan Program**

In 1970-1971, the Ford Foundation gave Capital Formation a \$95,000 grant to support its minority lending initiative. Sam was beginning to experiment with the job creation potential of the SBA's Section 502 Local Development Company program, and he inserted a brief paragraph into the grant to allow that work.

Arthur Pearlroth, an employee of the New York City Economic Development Administration, was the source of the idea. Section 502 was building factories in rural areas in North Carolina and Tennessee. There was \$50 million of direct federal lending that attracted an additional \$50 million of bank lending – a \$100 million program.

In the 1960's New York City had lost over 250,000 small business manufacturing jobs. Philadelphia has lost over 100,000 small business manufacturing jobs. Baltimore over 60,000.

Why not adapt the program and introduce it as a tool for urban job creation?

The SBA 502 Program consists of a first mortgage from a bank for 50% of the eligible project cost (normally land and building and some equipment), a 40% SBA direct 2<sup>nd</sup> mortgage and 10% equity from a Local Development Company (LDC).

Trial and error was the rule of the day. Sam created an LDC, DEVCO, in New York City. Barry Lang was the SBA officer assigned to 502 loans in New York City.

***NDC took three full years to complete the first SBA Section 502 loan – a \$1 million loan to a desk manufacturer in Brooklyn.***

This was a turning point. Barry left the SBA in 1972 to join NDC. That same year the SBA funded NDC to manage a national 502 Demonstration Program in ten cities--Atlanta, Boston, Baltimore, Chicago, Cleveland, Denver, Houston, Los Angeles, New York and San Francisco to demonstrate the value of the 502 Program to minority businesses.

***In 1973 to 1975, we expanded our effectiveness and completed \$30 million of financing.***

In 1975, as part of the Gerald Ford Administration, NDC worked with the SBA Administrator, Mitchell Kobelinksi, and convinced him that the 502 program was an important urban development job creation program. SBA created a national demonstration program and unleashed NDC into 7 cities. The cities included Atlanta, Georgia to enable NDC to work with U.S. Senator Sam Nunn, then Chairman of the U.S. Senate Small Business Committee, and Buffalo, New York, the main city in U.S. Congressman John LaFalce's territory. LaFalce was Chairman of the U.S. Congress Small Business Committee. We also worked in Baltimore, Maryland with Mayor William Donald Schaefer and Bob Embry, the Housing and Development Commissioner.

In the last 6 months of 1976, NDC established Local Development Companies (LDC'S) in 50 cities to bring this increasingly proven job creation tool all across the country.

***In 1976 to 1978, persistence was paying off. NDC completed \$100 million of Section 502 financing nationwide.***

## **Small Business Administration Section 504 Local Development Company (LDC) Program – Near Disaster Turns to Gold**

### **Catalytic Impact**

In spite of these successes and steady growth, the SBA 502 had an Achilles heel. It was based on direct federal lending at a time that the Jimmy Carter Administration was facing serious federal deficits and wanted to terminate most direct federal lending.

In 1980 502 was scheduled for termination. Faced with a crisis, with our 10 years of efforts facing elimination, NDC took a lesson we had learned under President Nixon. The Nixon SBA increasingly used the guarantee authority of the federal government, working through the Federal Finance Bank, to change direct SBA lending into guaranteed lending, and multiply SBA's lending capacity.

Literally at the last hour, NDC worked with Sam Nunn in the Senate and John LaFalce in the House, and the Congress passed a law creating Section 503, then

Section 504, to turn the LDC program into a guarantee program. In July 1980 President Jimmy Carter signed the law authorizing a \$500 million Section 504 guarantee loan authority. The annual \$50 million of direct federal lending was set aside in the budget as a reserve against losses, and became \$500 million of guaranteed lending. With 50% financing from local banks, over night, NDC had played a lead role in creating a new \$1 billion per year federal loan program.

***At one magical stroke, the \$50 million program went from the garbage pail to the frontlines of economic development and ended as a \$1 billion federal tool.***

### **Catalytic Impact**

Slowly NDC learned how to connect strong grassroots communities to the Congressional leadership that determines funding levels and authorizations. In 1980 NDC originated the National Association of Development Companies (NADCO). The purpose of NADCO was to educate Congress on the importance of the SBA 504 program as an urban and rural job creation tool and to increase the federal guarantee authority based on the proven demand.

The early officers of NADCO were all NDC staffers with a handful of outside directors. We financed NADCO and ran it out of our office space. We felt this was not inclusive and strategically spun NADCO off to become its own independent organization.

Over the years, NADCO has been run very effectively, and the SBA 504 program has grown to heights not conceivable in the early years.

***By July 2005, the 25<sup>th</sup> anniversary of Jimmy Carter signing the law creating 504, the SBA 504 program surpassed \$100 billion of total financing and recorded more than 1 million jobs created. In fiscal year July 2004 through June 2005 alone, the total financing of 504 exceeded \$10 billion.***

## **The Third Presidential Program - Neighborhood Business Revitalization Program (NBR)**

By 1977, NDC was gaining a stride. In the field of economic development we were pioneers, innovators and leaders in three critical areas.

### **The Power of Small Business to Create Jobs**

NDC was one of the first leaders to realize the job creation potential of small businesses. Today the knowledge that small business is responsible for creating most new jobs in America is accepted and common place. Throughout all the 1960's and 1970's, leading into the 1980's, the main focus was on Fortune 500 companies.

In low-income communities, there were no Fortune 500 companies and none were moving there – other than an isolated handful of small plants, such as the small operation that Tom Watson of IBM opened in Bedford-Stuyvesant.

### **The Importance of the Private Sector – Profitability and Scale**

During the 1960's and 1970's, for the most part, leaders in governmental economic development programs distrusted the private sector. They viewed the private sector more as exploiters and feared usurious interest rates.

In a very simple way, NDC again was an important innovator and leader. NDC saw the private sector as a key ally. NDC applauded the entrepreneurial spirit of the private sector and specifically sought ways to show banks and other private institutions how community development could be a new and profitable business opportunity.

To achieve the necessary scale for economic development, you couldn't rely on scarce and shrinking federal lending. To achieve large scale investment in low income communities, the private sector needed to be shown that community development was a profitable market.

### **Creating Long-Term Financing Markets for Small Business Job Creation**

NDC pioneered seeking healthy, expanding small businesses that couldn't get conventional bank loans. We learned that most banks would not lend in "high risk" areas. We also found that banks were offering short-term lending (3 to 5 year terms) at a time when small businesses needed 15 to 18 year loans for plant expansion. A small business couldn't afford to borrow \$1 million for plant expansion and pay it back in 3 to 5 years.

Interest and principal repayments were too high. The effective annual carrying charges were 18% to 20%. Spread the same \$1 million loan over a 15 year period, and the repayment schedule was affordable – 8% to 10%.

By experience, NDC discovered a significant long-term financing gap, and then solved it.

***Our solution was to create new partnerships between private financing institutions and the public sector - using all available federal and state guarantee programs. This was a breakthrough approach for small business in the 1970's and 1980's.***

In the late 1970's, we pioneered this approach with Mayor Schaefer in Baltimore. Over an 18 month period, with NDC, Mayor Schaefer went bank by bank in Baltimore and convinced the CEO's to agree to commit \$89.4 million for long-term financing using SBA programs. This was historic.

We then repeated this model in San Francisco, San Antonio and 12 other communities.

Under President Carter, Bob Embry was the Assistant Secretary of HUD overseeing Community Development Block Grants (CDBG). The annual CDBG Budget was \$3.5 billion and allowed cities great flexibility in economic development.

NDC began talking with Embry about creating a first-time-ever \$1 billion presidential program to focus on small business job creation and neighborhood commercial revitalization combining all the existing federal guarantees with local bank financing.

Embry had seen NDC's effectiveness working with us in Baltimore, but we weren't getting anywhere fast.

Then two events occurred which changed the climate. The Black leadership held a press conference stating that the Carter Administration was letting them down and that there was no Carter urban policy. Over night the Carter Administration proposed a multi-billion dollar development bank to attract Fortune 500 plants and jobs into inner cities. At the same time, with our urging, our friends Sam Nunn and John LaFalce began holding hearings asking what the Carter Administration was doing to combine existing federal guarantees to attract private sector financing for small businesses in urban neighborhoods.

The results were magical. NDC was asked to help write the first-ever Inter Agency Agreement between SBA, HUD and EDA (Commerce) to create a unified local response capability for small business financing.

The President's team created an official presidential program, titled the Neighborhood Business Revitalization (NBR) Program and unleashed NDC into 32 cities. The Presidential goal was \$1 billion of financing in 48 months.

NDC had a staff of six. To underline how new these concepts were, we only knew of one city in America – Philadelphia – that had anyone on their payroll who could read a financial statement. Without the ability to read a financial statement, you couldn't analyze the first deal, and you certainly couldn't present the deal to local banks asking them for financing.

The 32 cities included working with Tom Bradley in Los Angeles, John **Spelling** Voinovich in Cleveland, Coleman Young in Detroit, Mayor Schaefer in Baltimore, Ken Gibson in Newark, and **Speling** Moscone in San Francisco – the nation's most famous mayors.

NDC's program design and presentation to the mayors included the elements for success. We told the mayors that NDC couldn't do \$1 billion of financing with our staff of 6. Each mayor, on their payroll, had to place 4 professionals in their Departments of Economic Development and they had to mirror the NDC staffing – no PR, no urban planners, all financially trained, and workaholics. We were creating a whole new breed of urban professional. We coined the phrase Economic Development Professionals –EDP's.

We asked each mayor to go with us to their local banks and follow our pioneering efforts with Mayor Schaefer to obtain bank commitments to participate using the federal guarantees. We were anticipating that each city could build a \$30 to \$50 million small business lending system, and we needed break-through private sector financing.

The third element was just as important. We requested that the mayor join us in creating a numerical goals and management system. We expected each city EDP to generate a loan per month, and we wanted the mayor to join us in expecting and demanding results.

## Catalytic Impact

To our surprise, all 32 mayors signed up. Within a year the program was proving to be a great success. The Carter Administration doubled the program and put NDC to work in 65 cities.

***We had promised the President \$1 billion of financing in 48 months. We surpassed the \$1 billion goal in 22 months, and the system we had created was generating \$1 billion per year.***

NDC received federal grants as part of the Inter Agency Agreement from SBA, HUD and EDA. As our success grew, our staff grew to 18 professionals to manage the 65 cities.

***NBR played a lead role in proving the importance of small businesses in inner city job creation. Combining private sector financing with government guarantees became the norm. We showed the banks how to use government guarantees and to make inner city lending a profitable market.***

Other major forces and organizations were promoting similar ideas. We were never pioneering alone. By any account, NDC's impact has been major. These ideas were adopted by cities across America, and today federally guaranteed small business bank lending is main stream.

NBR was a defining program for NDC. It was the vehicle that created the relationship with HUD that continues to exist today. It began NDC's relationship with EDA and strengthened NDC's existing relationship with SBA. It also created the 'art and science' of technical assistance which NDC continues to practice. It is the program that created many of the technical assistance components that continue to be part of the NDC's relationship with its clients and have become part of the 'short hand' language of the NDC culture:

- Local economic development financing systems
- Sustainable economic development
- Long-term financing gap
- Long term fixed asset financing
- Job Creation in small and medium sized businesses
- Leverage
- Economic Development Professional (EDP)
- Public-Private Partnership
- Self-sustaining local capacity
- Deal Doer
- Skill transfer
- Getting the deal 'in the ground'

NBR also created the need for the largest staff expansion in NDC's history. NDC had six staff members in 1976 including --Barry Lang, a loan officer with SBA in New York City, John Sower, a mortgage banker in Washington D.C., Robert W. Davenport, a division credit officer for Citibank in New York City and Sam Beard who was the 'big picture' founder. Barry, John and Bob were the three field staff providing technical assistance services to the thirty-two cities across the country. In expanding its staff, NDC did what it continues to do today. It hired the best and brightest from the banks and cities it had worked with in previous programs and it trained them, as it continues to do today, by putting them in the field with someone who knew the ropes and then cutting them loose. By 1979, NDC had eighteen full time field staff.

NBR also was the opportunity for NDC to hone its own and its client's 'deal doing' skills. NBR provided NDC a menu of federal programs to use in its client cities: HUD's Community Block Grant Program (CDBG), Urban Development Action Grant Program (UDAG) and Section 312 Housing Rehabilitation Program, the SBA's 502 and 7(a) programs and the EDA Overall Economic Development Program (OEDP) and its Title IX lending and technical assistance program. The Inter Agency Agreement for the first time provided these agencies with a program (NBR) that fostered coordination and collaboration in their economic and housing development programs.

This was a unique and monumental partnership. The three agencies knew very little about the other's programs and often competed with one another within the federal budgeting process. NDC learned what each had to offer and put the programs to work financing deals in local communities all over the country. **NDC created in NBR the art of project based technical assistance**, which it continues to practice today. What Sam had begun in his apartment in New York City, the behind the scenes deal doer, the catalyst to teach others how to make a federal lending program work beyond even the vision of its designers, now was a national program.

### **HUD Section 108 Loan Program**

In 1979 Bob Embry called Sam Beard into his office and pulled Sam's leg. Bob asked Sam what he knew about the federal government's "largest economic development tool." Sam asked, "Which one?" "Section 108," replied Embry, knowing that Beard would never have heard of it.

Beard didn't blink and asked what Section 108 was. Embry explained that under Section 108, cities were authorized to borrow up to 5 times their annual CDBG allocation for community development. The annual \$3.5 billion CDBG allocation times five equals a \$17.5 billion guarantee authority.

Beard promised Embry to look into it and come back with a response.

NDC researched 108 and found that the rules restricted loans to four years only and did not allow effective economic development. Only four Section 108 loans for less than \$3 million had been approved in the whole history of 108. These were public works projects and not economic development.

NDC worked with Embry and created recommendations to create a new and important economic development tool. NDC helped rewrite the regulations to allow loans for up to 15 to 18 years. We wrote suggested processing procedures and incorporated conservative credit criteria.

In 1980 HUD Secretary, Patricia Harris, launched a 12 city demonstration program for 108 and invited NDC to be the national delivery implementer.

### **Catalytic Impact**

***Section 108 has been responsible for over \$10 billion of financing. At its peak, over \$2 billion of lending was generated annually.***

***Thousands of jobs have been created, and there has never been a single dollar of cost to the federal government.***

Major projects such as the Peabody Market revitalizing downtown Memphis, Tennessee (\$150 million), the waterfront development in Long Beach, California (\$180 million), and retaining Nordstrom's headquarters and thousands of jobs in downtown Seattle Washington (\$140 million) were the result.

***Sam Beard often pinches himself and says, "I can't believe it. There are six major federal economic development tools in the country, and NDC has played a lead role in creating two of them – with a staff that has never exceeded 50."***

Under the Clinton Administration, Section 108 became mired in bureaucracy and the number of projects dwindled. As a result, the Bush Administration recommended eliminating Section 108 and zeroed it out in their budget.

NDC worked to save Section 108 lending.

Currently NDC is working with HUD and the Congress to streamline the program and bring it back up to reach its full potential.

## **NDC Training**

As stated above, with the NBR program NDC needed to learn to leverage itself. In each participating city, the local professional staffs were often city planners, administrators or engineers with little or no financial training. If NBR was going to be successful, NDC needed to leverage its own staff by transferring its financing skills to local staff members.

Robert Davenport, the current President of NDC, created NDC's Economic Development Training and was NDC's first trainer. Bob's memory of the creation of the NDC training is as follows:

One thing no one under the age of 50 knows, I was NDC's very first trainer, way back in 1977. I will tell you a secret. Getting into training was never something we wanted to do; it was nearly the last thing I wanted to do. It was purely a desperate act of self-defense. Back in 1976, we were an organization of six people: Sam, our president, never did deals, still hasn't, isn't about to. There were three of us working in 32 cities under President Carter's NBR program. NDC's job was to visit the cities, find successful businesses looking to expand in the community and to work with the business to package financing for the expansion, generally using SBA 502 and 7(a), HUD CDBG and UDAG and EDA Title IX loan programs. Not much different than what NDC does today. The programs are a bit different, but there is still only one sure-fire way to grow a job and tax base, working one-on-one with the businesses and developers that will grow and prosper in your communities.

Based upon the success of the NBR program, the Carter Administration, asked us to increase our efforts from 32 cities to 65 cities. Other cities invited us to work with them. By 1980 we were in 135 cities - a 500% increase, almost overnight. If I were going to pick up my fair share of 135 cities, I would have been going to 45 cities. If we were supposed to visit each city twice a month, I would be visiting 3 cities a day, including weekends. Out of desperation, not desire, I said to Sam, we have to train people in our cities so they can do what we can do. Sam said great idea. Write the training course. Get back to me when you are ready to go into the classroom. And, that is the true story of how NDC training got started. The old saying "Necessity is the Mother of Invention" was certainly true in this case.

In November 1977 the first NDC training session was held in Baltimore, Maryland (An interesting historical note, the first NDC housing training course was also held in the State of Maryland in 1988). There were 54 economic development practitioners from 30 NBR cities in the class. It was a five-day course. That course contained all the elements of what would become four five-day courses and be known as Economic Development Finance Training.

The essentials of NDC training are simple:

- Teach basic financing skills using actual NDC structured deals---learn to read a balance sheet, profit and loss statement, a cash flow statement and a developer proforma and from the analysis of those statements determine if the company is ready to grow and how much debt it can afford
- Teach leveraging---use the maximum amount of private sector financing and owner equity
- Fill the gap---use available public sector loan programs to provide the dollars needed to finance the deal.

Anyone who has taken NDC training has learned the NDC training lingo:

- Is this company a dog?
- Is cash flow greater than debt service?
- Small businesses are *the* job creators
- Retained earnings are not additional cash available for debt service.
- Cash is King, or depending on the trainer, Regal.
- Inventory is 'fudgeable'
- An officer note receivable may be a 'dividend in drag'

NDC training is based on a case study model and the case studies are all real deals. Equally important, each trainer is a 'deal doer'. The trainer, the week prior to the training session, was working in client cities analyzing and structuring deals just like the ones being taught. This real world approach has always been the 'magic' of NDC training. In addition, a training participant had the tools to go home and begin working on deals immediately. During the NBR program they all had access to an NDC staff member to continue the training with hands on technical assistance in business analysis and deal structuring.

### **Catalytic Impact**

***The catalytic impact of NDC's training has never been measured and is immeasurable. Since the early 1980's NDC has trained over 3,000 city, county and state development professionals each year.***

These are 30 to 50 person week-long sessions held regionally all across the country. In 1988 we added training in housing development using the same financial, no-nonsense principles.

Our basic message is simple and powerful and transforming. Look for healthy expanding companies, use maximum private sector leverage and enable local communities to utilize all available federal, state and local guarantee programs.

The ripple impact of the NDC training clearly has had an important influence changing and impacting urban and rural economic development nationwide.

Any proof of this is anecdotal.

While working with the Reagan Administration, Sam Beard was making a report on NDC's national programming in front of 250 state and city practitioners. He stated that NDC had been "catalytic." One participant interrupted Sam and scoffed that the word "catalyst" is way over used and Beard should avoid hyperbole and stick to facts.

A loan officer from El Paso's Development Department leapt up from the back of the room. "Let me tell you about NDC's catalytic impact. I have attended all four weeks of the NDC economic development training. I then returned to El Paso and have implemented what they taught me. We now have surpassed \$50 million of community development."

### **The Fourth Presidential Program - Small Business Revitalization Program (SBR)**

With the election of President Ronald Regan, NDC continued working in the NBR cities and others across the country.

At year end 1981, Sam Beard started discussions with the Reagan Administration to create a new presidential program. While Democrats often focus on cities and mayors, Republicans often focus on states and governors. The basic NDC idea for the Reagan Administration was to deliver the basic NBR programming with its focus on small business job creation and private sector financing with governors.

Steve Bolinger was the Reagan appointee as Assistant Secretary of HUD for CDBG. Sam arranged to fly from Washington, DC to Atlanta and sat next to Bolinger. Beard explained that we had succeeded in creating \$1 billion presidential programs for each of the past three presidents, and that we would like to do the same for President Reagan. Beard outlined how we could work with governors to deliver first-time ever small business-private sector financing.

Bolinger asked if NDC could do \$2 billion for Reagan. Beard promised the \$2 billion and Bolinger committed on the spot to line up the White House.

When the plane arrived in Atlanta, Bolinger asked Beard what he was doing in Atlanta. “Nothing,” replied Beard. “I just wanted to talk with you away from telephones. I’m on the next plane back to Washington.”

The President’s program was finalized and letters of invitation were sent from the President to 30 governors.

The goal of SBR was to organize sustainable economic development financing systems similar to the ones created by NBR in cities.

Dealing with governors proved more difficult than mayors. The responsibilities of governors are so extensive that getting the attention of the governor is very difficult, and getting lost in the state bureaucracy is easy.

Cities have a confined geography. States cover large rural areas and multiple cities.

### **Catalytic Impact**

Even with greater bureaucratic hurdles, the SBR program was very successful. Our two lead states were Illinois under Governor James Thompson, and Ohio under Governor Richard Celeste. Both governors got fully behind creating statewide small business financing systems.

***President Reagan’s goal was \$2 billion of small business financing over a 4 year period. With two years of building, both Ohio and Illinois established systems that were generating \$1 billion of small business financing per year. In our other states, we were generating an additional \$2 billion per year.***

***Before SBR, most states had economic development programs, but they were based on attraction---using tax incentives and industrial revenue bonds (IRB’s) to entice existing large employers to relocate to a state. The SBR program pioneered in creating small business financing systems statewide.***

SBR was marketing small businesses as the major job creators as opposed to Fortune 500 companies, and we were continuing our efforts to leverage private sector financing. State by state, NDC was teaching banks that small business financing, working with federal guarantees, provided profitable new markets.

Under SBR:

- States began or expanded programs concentrating on retention and expansion of homegrown businesses
- Private lenders made dollars available state-wide for long-term fixed asset financing (Lender Commitment Program)
- Statewide 504 CDCs were created to serve rural areas and small towns not large enough to support a CDC
- Each state dedicated up to four full time economic development professionals to work with NDC and to be trained by NDC.
- States begin to establish economic development set asides within their HUD Small Cities Community Development Block Grant Program (CDBG)

### **A Change in Leadership**

In December, 1985 Sam Beard began to focus his energies in new areas. He resigned as the President of NDC to assume the position of Chairman of the Board. Robert W. Davenport was appointed President, a position he continues to hold in 2006. Bob joined NDC in 1977. Before working for Citibank and NDC, Bob had been a VISTA volunteer working in the Appalachian area of south eastern Ohio. There he experienced the reality of rural poverty and there he learned the same truth that Sam articulates from working in Senator Robert Kennedy's office—anyone can make a difference. For Bob, his way of making a difference has been to lead NDC as a mission driven organization for the last 20 years. He shares Dr. Martin Luther King's belief that the civil rights movement also has an economic context, which is that civil rights are also about economic justice for people without economic opportunity. NDC embodies the belief that there is no political freedom without economic justice. Bob's leadership of NDC and therefore NDC itself reflects that belief.

### **An Evolution from Federal Sponsorship to Diversification**

The SBR Program ended in 1985 and with its ending NDC was faced with the challenge of selling its technical assistance services and training to a client base that was accustomed to the total cost or partial cost of NDC services being subsisted by federal government contracts. This was a watershed time for NDC. NDC was clearly the national leader in understanding and using public and private economic development financing tools to create investment in distressed communities, but its own financial underpinnings were shaky.

Under Sam Beard's leadership, NDC used the skills and leadership of our professional staff to create presidential programs with a goal of impacting public policy through results. The founding goal of Capital Formation and NDC was results. The original slogan on the first Capital Formation brochure was "Results – Action - Louder Than Words."

The mode of operation was to identify a powerful concept and pioneer by building it. Make it work. Complete the first deals. Once the model was working, introduce the working program into a sampling of other cities as a demonstration. Then create a presidential program and take the program nationwide.

This worked, but NDC's finances were always precarious. Each year we squeaked by – barely. With the change of each presidential administration, it took two years to develop effective partnerships with the new presidential teams – each of which was highly suspicious any previous administration.

Bob Davenport has brought significant professional management and financial skills to NDC. Under Bob's leadership, NDC has used the financial skills of its professional staff to diversify and solidify a series of economic and housing development programming that continue to serve our community building leadership. At the same time, NDC is generating steady and growing revenue.

Under Bob's leadership, NDC today operates in 125 communities nationwide – cities, states and counties. We train over 3,000 housing and economic development professionals per year.

We have developed a series of powerful delivery tools:

- The basic ongoing Technical Assistance to communities
- The updated Housing and Economic Development Training
- New Markets Tax Credits
- The Grow America Fund (GAF) – an SBA license that permits NDC to run its own small business lending "bank."
- NDC Housing and Economic Development Corporation (HEDC) – a development arm including
  - 63/20 Transactions
  - 501 c 3 Transactions
  - Development Services
- NDC Corporate Equity Fund – (CEF) a housing development fund
- Rehabilitation Tax Credits (RTC)