



MERRITT MESSENGER

THE NEWSLETTER OF MERRITT COMMUNITY CAPITAL CORPORATION

TOP: BONTERRA is a newly constructed property providing 94 units of affordable housing to families in Brea.

Workforce Housing in Orange County

BONTERRA APARTMENT HOMES provides 94 units of affordable housing on the site of a former oil production field in Brea, California. Jamboree Housing Corporation developed Bonterra and acts as managing general partner on three additional properties already in Merritt’s portfolio.

Karen Smyda, Merritt’s Director of Acquisitions, was very excited about the upscale neighborhood and easily accessed services, employment, and retail opportunities related to Bonterra’s location. However, the realities of land use issues surrounding developing a property with working oil wells were a new challenge for Merritt. Due to the strong existing relationship with Jamboree, Merritt was interested in delving deeper. Smyda praised Steve Armanino, Bonterra’s Project Manager, for “not only providing concise and complete information on environmental issues involved, but also explaining procedures and processes that the city, county and state required.”

Michael Massie, Jamboree’s Housing Development Director explained, “There is a long history in Southern California in building on recovered oil fields.” However, this was a learning experience for Jamboree, as well as Merritt, as their first development on a recovered oil field. Massie said that “much of the remediation work was done prior to Jamboree taking possession of the land, but due diligence required ensuring all work was done safely and according to pertinent regulations.”

After the clean site was transferred to Jamboree, the largest issue that remained was methane gas. To remediate this, Massie said “a vapor barrier was

installed below the foundation and passive venting was incorporated into the structure of the buildings to allow the methane to harmlessly emit into the atmosphere. The efficacy of these is measured by a series of tests by Brea Fire Department and ongoing measuring meters.”

This workforce housing for families who earn between 30% and 60% of area median income (AMI) satisfies the affordable housing requirement of the 800-acre Blackstone Community master plan area. Shea Homes LLC donated the land, estimated at \$2 million, and The John Stewart Company manages the property. Bonterra provides 21 one-bedroom, 34 two-bedroom, and 39 three-bedroom apartments in 7 three-story buildings that surround central courtyards. The buildings are linked by tree lined pedestrian-friendly walks and the property also has a 3,500 square foot community room, a computer room, a daycare classroom, laundry facilities, a play structure, a swimming pool and sun deck, barbecue and picnic areas, and private tuck under garages.

Bonterra is Jamboree’s first development with a LEED (Leadership in Energy & Environmental Design) certified Silver rating. Some of the green features that helped achieve this rating were use of low-VOC interior paint, carpeting and adhesives, paperless drywall in the bathrooms, installation of

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Report from the Hob

For those few who have not read or seen *The Hunger Games*, the Hob is the local market place in the fictional District 12. While the Hob is not a precise analogy to the tax credit market, it's close enough! Each year seems to bring new challenges and added uncertainty to the Low Income Housing Tax Credit market.

In a year that saw the Low Income Housing Tax Credit market return to pre-2008 levels, Merritt continued its growth as California's premier nonprofit equity fund as we closed a \$73 million multi investor fund (Fund XIV) and look to raise even more equity for California Affordable Housing by the end of this year. We have also identified outstanding project investments for the proceeds of Fund XIV.

While the tax credit market continued its return to pre-bubble pricing, the future of California affordable housing was thrown a real curve with a ruling by the California Supreme Court that the elimination of over 400 Redevelopment Agencies was constitutional and that the alternate funding vehicle included in the law was not. As of this writing, the legislature is working to complete a clarification of the status of recent funding commitments made by the now defunct agencies, but even if the Governor approves this legislation, it only adds an incremental amount of what will be the final round of funding from the Redevelopment source.

In any event, funding for 2012 and a portion of 2013 projects may be secure, but after these developments are finalized, the future beyond 2013 is really an unknown and the financial structure of new developments is yet to be determined. Add to that the likely expiration of the full 9% factor and the looming circus of tax reform at the Federal level, we may be facing yet another rough day in the "Arena".

year. Basically, it's business as usual — until it isn't. We are in a strong financial position with reserves that will carry us through almost any scenario imaginable and a few that aren't. We are committed to the Low Income Housing Tax Credit program and will do whatever is necessary to keep our commitments to both our investors and our project partners.

To keep that promise, it is important to keep abreast of changing market conditions and to maintain the flexibility to react to changing circumstances. These times require an ever more diligent underwriting process and ensuring that the gap between investment and project commitments is as narrow as possible. Each year we strive to place 100% of investor equity in sound project partnership investments and, in most cases, we are able to achieve that goal. We do not make project commitments that we cannot support with the timing of corresponding investments and we do not project investor returns that cannot be met in the current tax credit market place. As a California only fund, we know and understand our market, but we do not have the luxury of blending fund yields with investments in other parts of the country. To ensure our ongoing success, we will continue to be flexible and responsive to the often fast moving changes in the California market. That is our pledge to our investors and project partners as we move yet again into uncharted waters.

We are committed to the Low Income Housing Tax Credit program and will do whatever is necessary to keep our commitments to both our investors and our project partners.

Given the above issues, what do we see in the Merritt Capital crystal ball? As you might expect, it's a bit cloudy. We continue to encourage investment in the tax credit program and our investor partners are prepared to support the program. We are always seeking sound project investments and are reviewing several potential investments for our next fund due out later this



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A Recollection from the Past

ROY SCHWEYER

REPORT FROM THE BOARD CHAIR

Over the past several years the difficult market conditions faced by Low Income Housing Tax Credit (LIHTC) organizations had to be addressed so they could continue to provide resources to developers serving lower income families. This year, Merritt has been able to expand the pool of investors and found excellent projects for funding.

Difficult times require creative solutions such as those faced by the City of Oakland 23 years ago when it sought to develop the best way to increase investment in affordable rental housing within the city.

During the late 80's, LIHTC investors provided funding for projects with returns often over 35%. These rates now seem to be astronomic and excessive, since the recent rates span from 5% to 10%, where that level balanced after the maturing of the market. In order to raise revenue for affordable housing and to assist developers who needed to obtain a reasonable investment, Oakland chose to establish a non-profit tax credit organization to explore ways to expand the source from investments. That organization, originally rather cutely named Community Alliance for Syndicated

and Local Equity Funds (NASLEF), expanded its investment area to the Bay Area and then to all of California, raised over \$450,000,000, invested in 76 projects with over 5,000 units for lower income tenants, and secured new investors. In 2011, a review of the agency by The Reznick Group described a perfectly administered company that included the finest Board of Directors who were clearly supported by excellent staff. The laud was appropriate as this unique structure will enable the Merritt Staff and Board to face the current problems that will continue to occur in the future and have been overcome in the past.

Those now battling within *The Hunger Games* of Washington and California had to use unique and creative ways to work through the dangers on the horizon. An ability to work cooperatively was created

Merritt has grown to become a leader in the nation by regularly increasing the size of annual funds, by investing in quality affordable housing properties, and by creating innovative partnerships within the state and among the LIHTC world.

Housing, Inc. (CASH, Inc.), was the creation of what became Merritt. In 1989, Consultants, City Staff, including myself, Mayor Elihu Harris and original members (particularly the late Richard Winnie, the first Merritt President and former Alameda County Counsel) worked diligently to raise a few million dollars for one investment in the California Hotel. Over the next years, the market investment rate plummeted and the Consultants and City Staff, who were operating the organization, enabled it to become fully self sufficient. At that point, the dream for the City and the Merritt Board was that Merritt might continue to contribute to the affordable housing field.

Merritt Capital has grown even beyond that dream and become a leader in the nation by regularly increasing the size of annual funds, by investing in quality affordable housing properties, and by creating innovative partnerships within the state and among the LIHTC world. Merritt became the administrator of the National Association of State

to win the Games held in the past and Merritt has always worked very well with investors, syndicators, developers, asset managers, service providers and residents of affordable housing. Our future will be interesting and we look towards real success for as far as we see.



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Resident Services Make a Difference for Everyone



BIRUTE SKURDENIS is an Asset Manager and Trainer for Merritt Community Capital Corporation.



In March, I attended the two day 2012 Consortium for Housing and Asset Management (CHAM) Conference which was part of the NeighborWorks LA Training Institute. After a year hiatus, I'm glad the conference is back. This is, by far, my favorite of four or five conferences I go to every year and the one I find most useful.

If you're involved in asset management and have never attended a CHAM Conference or taken any of NeighborWorks Training Institute classes, you owe it to yourself to check out what's available in Affordable Housing and Asset Management at www.nw.org.

This year's conference was held in conjunction with a resident service providers conference so registrants could attend sessions about Asset Management or Resident Services, and several of the sessions were devoted to how the two fields can support each other. Resident Services are broadly defined as programs or services provided at properties to enhance the quality of life for residents. One of the morning sessions included presentation of a study done by Community Housing Partners (CHP) of Christianburg, Virginia, quantifying the value of services by calculating the savings from eviction interventions. At an approximate cost of \$4,000 per eviction (including rent loss and turnover expenses), CHP resident services staff estimated that staff intervention prevented 245 evictions in 2011, resulting in a savings to the company of \$980,000. These 245 were residents who had been served eviction notices for nonpayment of rent or housekeeping/house rule non-compliance. Although the savings estimates are inherently fuzzy, it's one way of measuring the value of the \$1,000,000+ this organization invested in resident services annually.

Resident services paid off for another organization which devoted service staff time to training maintenance, desk and security staff, working with them to improve their communication skills with residents. Using techniques from the books *Crucial Conversations: Tools for Talking When Stakes Are High* and *Crucial Confrontations*, both by Kerry Patterson, and role plays where residents played themselves, front line staff learned to de-escalate anger with techniques that do not focus on finding fault or blaming, but on finding solutions.

Another way resident services can improve a property's bottom line is through "Financial Fitness" programs for residents. Staff from

Chinatown Community Development Corporation (San Francisco, CA), Community HousingWorks (San Diego, CA) and Foundation Communities (Austin, TX) spoke about how they were able to breathe new life into their "financial literacy" programs. First, they ditched the negative language and replaced words that have negative connotations with those that are positive. No one wants to think of themselves as illiterate but financial "fitness" resonates with today's focus on overall fitness. They also found that the way to interest residents in a financial fitness program is to get them to invest in outcomes they desire, not just what staff feels is necessary. Starting with advertising to residents to "invest some time in you," one presenter felt it was crucial to hook participants in the first 15 minutes. She did this in a series of steps. First, she asked them to write down one goal they had each accomplished in their lives. Then residents were asked to consider what motivated them and what support system they had. Residents were then asked why they thought they were asked these questions, and then moved on to what they wanted to focus on today and what steps they would take to get there. Again, even if staff had strong ideas about what should be important, they left it up to the residents to set their own goals. The core program helps residents make decisions about "saving" and "spending" (not "budgeting" a word that can carry a negative connotation of deprivation), set goals, create a written, signed action plan, understand and manage credit, and stretch their dollars.

Another presentation from the Asset Management perspective took an overall look at one organization's portfolio, assessing strengths, weaknesses, opportunities and threats. While the organization had spent a lot of time trying to improve the performance of some of the properties that were financially hurting, they identified that for some properties the issue wasn't operational but situational. They realized because of location, design and other issues, many of their properties would never be cash cows.

So, instead they focused on their better performing properties. By improving cash flow and increasing income by \$145,000 at strong properties, they were able to offset losses of \$112,000 in the underperforming properties. The honest upfront assessment of strengths and weaknesses was crucial to being able to focus on the best solution.

I hope these examples give you an idea of how Asset Management and Resident Services work

hand in hand to catalyze positive change in affordable housing properties. For more information, check the NeighborWorks website (www.nw.org), look for next year's CHAM conference, or come to the September Annual Conference of the National Association of State and Local Equity Funds (www.NASLEF.org) in San Francisco.

Merritt Capital staff and Board of Directors were pleased to award scholarships to four deserving California State University students for the 2011-12 school year. Two scholarships were awarded to San Francisco State University (SFSU) Urban Studies and Planning students **Allison Gill** and **Matthew S. Bradley**. The other two scholarships were awarded to California State University East Bay (CSUEB) Business Administration students **Khoa Pham** and **Jienan "Gary" Xie**. These scholarships cover in-state tuition for students and allow them to focus more time on studying rather than working. The Merritt Scholars were also invited to attend the Nonprofit Housing Association of Northern California's Fall Conference as well as Merritt's Partnership Luncheon so they could learn about the affordable housing industry and make connections within it in order to enhance their career goals. With the help of Raquel Pinderhughes, SFSU's enthusiastic Urban Studies and Planning Department Chair, both Gill and Bradley met many of our event attendees and even solidified an internship opportunity.



that "with Gordon's help, I designed a new data analysis template for the survey so hopefully it will help them in the future as well."

On April 24, 2012 Barney Deasy awarded scholarships to two Urban Studies and Planning students at SFSU for the 2012-13 school year. This year's



recipients are **Finn Greenspan** and **Laura Daza**. This is the fourth year that these scholarships have been awarded making Finn and Laura the seventh and eighth Merritt scholars at SFSU. At CSUEB, scholarship recipients have just been selected for next year. They are **Bohdan Stryuk** and **Khanh Nguyen**. Congratulations to all of the 2012-2013 Merritt Scholars!

PHOTO TOP (L TO R):
Julie Sontag, Barney Deasy, Laura Daza,
Finn Greenspan

PHOTO LEFT (L TO R):
Julie Sontag, Matthew S. Bradley, Allison Gill,
Raquel Pinderhughes, Andrea Rouah

Gary Xie completed his degree at CSUEB in March 2012, and was placed by Merritt staff at an internship at Chinatown Community Development Corporation (CCDC) where he has been assisting Gordon Leung, CCDC's Director of Property Management. Xie has visited several of CCDC's properties including Namiki and Notre Dame, two that Merritt has invested in, talked with staff, and attended Property Manager, committee and board meetings. He's also had the opportunity to participate in a Property Management Survey Analysis and Utility Analysis. Xie was very pleased

Merritt Scholarship Awards



Scholarship recipient Gary Xie talks with Board Member Kamara Green at the Merritt Partnership luncheon

Bonterra

Continued from page 1



Poolside at Bonterra

Energy Star refrigerators, dishwashers, microwaves, and light fixtures, water flow reducers in kitchen and bathroom faucets, water efficient dual-flush toilets, tankless water heaters, efficient landscape irrigation and use of drought tolerant, native plants.

Bonterra provides onsite resident services through Housing with HEART, Jamboree’s in-house resident services provider created in 2001. Julie Cardenas, the Resident Services Coordinator at Bonterra, runs afterschool and summer programs for the kids and helps adults with job searches and basic computer skills. Cardenas said that residents truly appreciate their new homes at Bonterra. “They are in love with everything,” she said. “They have lovely apartments, good services, and a beautiful community. They are in heaven.”

Along with providing affordable homes, Bonterra will continue to produce oil. Massie said that many places in Southern California have “active wells as communities have grown around oil production.” In fact, Massie continued, Bonterra’s oil well is quite subtle compared to the working oil well pumping in the parking lot of Huntington Beach’s City Hall. The oil well at Bonterra is located in a subsurface concrete vault beneath the main driveway. Massie said that “accommodation has been made for the oil production company to bring in their equipment a couple times a year” to do the required work which will impact the use of a few parking spaces for part of a day.

Due to the downturn in the new construction of single family homes, much of the master planned

community was put on hold, making Bonterra the anchor site in the community. This meant that infrastructure was a new challenge for Jamboree. Massie confirmed, “This is the first project where Jamboree took the lead in constructing roads, traffic signals, water and sewer in public streets.”

Once construction was completed, lease-up for the property was very quick. “The City of Brea is an employment center where the number of jobs far exceeds the population,” said Massie. “That’s one of the things that made this an attractive development for us: Bonterra is helping to achieve a more balanced jobs-housing nexus. Due to our partnership with the City of Brea, we agreed to work from the city’s waiting list for affordable housing. There was considerable demand.”

Merritt Capital staff is pleased to partner once again with Jamboree Housing to create workforce housing in Southern California. The property was developed using tax-exempt bonds privately placed with Bank of America. Permanent financing was a combination of bond financing, soft loans from the City of Brea and Orange County and Multifamily Housing Program (MHP) financing from California Department of Housing and Community Development. American Recovery and Reinvestment Act funds from the State were used to backstop MHP funding and during construction to ensure funds were expended prior to the 12/31/11 deadline for their use. Merritt Community Capital Fund XIII invested over \$7.8 million in 4% Low Income Housing Tax Credits.

Merritt Closes Another Record Fund

Merritt Community Capital Corporation closed its \$73 million Multi-Investor Fund XIV, the largest Low Income Housing Tax Credit (LIHTC) fund closing in its 23-year history. This fund exceeded last year’s fund by \$15 million, exemplifying Merritt’s key strength in building and expanding partnerships with both investors and affordable housing developers in California. A key financial partner in this fund and for the second year in a row is First Republic Bank, investing \$18 million into Fund XIV.

Another key and long-standing financial partner has been Bank of America Merrill Lynch, which has invested consistently in each multi-investor Merritt Fund. Bank of America Merrill Lynch invested \$10 million in Fund XIV, bringing its total investment in Merritt Funds to approximately \$62.6 million since 1989.

“Bank of America Merrill Lynch is proud to work with Merritt Community Capital as part of our commitment to affordable housing in California and across the country,” said David Leopold, Tax Credit Equity Investments Executive at Bank of America Merrill Lynch. “Merritt’s growing success

is a result of strong collaboration with sponsors who know how to meet the needs of underserved communities.”

In this latest fund, Merritt’s key developer partners are Peoples’ Self Help Housing, Christian Church Homes of Northern California, EAH, Mercy Housing, East Bay Asian Local Development Corporation, Community Housing Improvement Program, and Sacramento Mutual Housing.

John Kukulka, Rental Development Department Manager at People’s Self Help Housing, a nonprofit housing developer, sums up nicely the true value of a Merritt relationship by stating, “Having previously closed nearly 20 housing credit deals with multiple investors, we have great appreciation for Merritt’s professionalism and support after closing our first two deals with them — they are a true partner in the development process.”

Other recurring Merritt investors in Fund XIV include Wells Fargo Bank, Comerica Bank, Silicon Valley Bank, Bank of the West and City National Bank.

2011 Partnership Luncheon

COMMUNITY
EVENTS



MERRITT STAFF AND BOARD OF DIRECTORS were pleased to host more than 140 affordable housing professionals at The Terrace Room for our 15th Annual Partnership Luncheon on November 4, 2011. It was a very special occasion for employees at Charities Housing and two of its developments, HomeSafe San Jose and HomeSafe Santa Clara, as all three entities received awards. Charities Housing was honored as 2011 Sponsor of the Year for its commitment to supportive affordable housing developments. HomeSafe Santa Clara and HomeSafe San Jose were

honored together as Merritt's 2011 Projects of the Year for Management's successful improvement and enhancement of supportive affordable housing developments. In addition, First Republic Bank was honored as 2011 Investor of the Year for its support of Merritt Capital as a collaborative partner in the Low Income Housing Tax Credit program. Congratulations Merritt's Partnership Awardees!



TOP (L TO R):
*Stephanie McFadden, Sean Heron,
Don Falk, Christine Carr*



PHOTO INSETS (L TO R):
Dan Wu, Charities Housing

*Roy Schweyer and Barney Deasy
with Emily French Martin,
First Republic Bank*

*Karen Smyda with Emily French
Martin, First Republic Bank*

*Barney Deasy with Cynthia
Alvarez, accepting awards for
HomeSafe Properties*



PHOTO (L TO R): *Sitting: Dan Wu, Laura Ruiz,
Maureen Wormley, Jill Reyes, Nadine Hutchinson
Standing: Kathy Robinson, David Ortega,
Cynthia Alvarez, Karen Chiu, Verenice Olvera,
Carol Mowat, Irma Cartagena, Cheryl Serna*

New Merritt Board Members

In late 2011 and early 2012, Merritt Capital welcomed three new members to its Board of Directors: **Kamara Green** from Bank of America Merrill Lynch, **Jim Mather** from JM Consulting, and **Joe Maleti** from City National Bank. Merritt staff welcomes their experience, knowledge, and expertise.



Kamara Green is a Senior Low Income Housing Tax Credit Originator for Bank of America Merrill Lynch (BAML). She joined BAML in 2003 and has worked with proprietary and multi-investor funds, direct purchases in the secondary market, and portfolio sales. Under her direction, investments have included HUD Section 8 Housing, Farmworker Housing, Rural Development, HUD 202 Senior Housing, and Special Need developments. For the past five years, Ms. Green has served as Merritt's contact at BAML. Prior to this she worked at Alliant Capital. She holds a bachelor's degree in Marketing and Finance from California State University Northridge and an MBA from Pepperdine University.



Jim Mather is principal of JM Consulting, which provides advisory services in the areas of community development and affordable housing. Prior to consulting, he spent 14 years in community development banking at Bank of America, Union Bank, and U.S. Bank, originating more than \$1 billion of affordable housing loans and investments. While at Bank of America he was also responsible for stabilizing and managing a national LIHTC portfolio, and he structured and managed direct equity investments. He also managed bond financing, first-time homebuyer programs, and housing policy for the County of Alameda. He has been an advisory member for Bay Area Council Smart Growth Investment Fund, the BART joint venture development advisory committee, and is a former board member of the California Association of Local Housing Finance Agencies. He holds a B.A. in English from Yale University and an M.A. in Architecture and Urban Planning from University of California, Los Angeles.



Joe Maleti is a Senior Vice President in the Real Estate Division at City National Bank. Prior to that he served as a Senior Vice President with Greater Bay Bank's construction lending unit where he was frequently recognized as their top company-wide producer. He held similar positions with Comerica Bank and Pacific Western Bank. Mr. Maleti is a member and past chair of the Silicon Valley Leadership Group's Housing and Land Use Committee and also a member of the Urban Land Institute (ULI) where he serves on the South Bay Sub-Committee of the San Francisco ULI Chapter. He holds a bachelor's degree in Real Estate from San Diego State University and is a licensed California real estate broker.

As we welcome our new board members, we also want to thank our departing board members, **John Chan** and **Sean Heron**, for their many years of service on Merritt's Board of Directors. John served on the board for nine years, the last two years as Chairman. Sean served on the board for four years and recently moved out of state. Merritt staff valued their contributions to the ongoing success of Merritt Capital. We wish them well in their future endeavors.

A recent review of Merritt by Reznick underscored the strength of Merritt's Board of Directors. We would like to thank all of our board members (listed on page 3) without whom Merritt staff couldn't do the important work of investing in affordable housing. Their knowledge, experience and generosity help make Merritt strong.

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