River town of La Crosse finds success in diversification

La Crosse, Wis., is a thriving area of varied industry and manageable population growth. It is the medical, retail, and educational center for the 98,000 people of greater La Crosse, but its influence reaches three times that many in an area stretching 70 miles east and 60 miles south.

La Crosse sits at the lush confluence of the Mississippi, Black, and La Crosse rivers against a ridge of bluffs in southwestern Wisconsin. This geography is both an asset and a hindrance. La Crosse is about 150 miles from Milwaukee, Chicago, and Minneapolis-St. Paul on Interstate 90, giving it a strategic location for commerce.

Once dependent on two large manufacturing firms, La Crosse has diversified in the last 30 years. This has enabled it to withstand major swings in the economy.

Health care is the largest industry with 14.4% of total wages and salaries in 1989. Two hospitals and two major clinics offer nationally recognized medical care to the surrounding areas. Dave Dahl, economist at the Federal Reserve Bank of Minneapolis, believes that the success of this industry is tied to government health policies like Medicare. He expects the medical industry will continue to grow, just how fast will depend on how national health care reform shakes out.

On another front, business services, like computing, security, custodial, accounting, advertising, and so on, are booming in the area.

They make up an estimated 5% of the total wages. Government, too, plays a big role, as La Crosse is the county seat. Government jobs accounted for 13.6% of the total jobs held in 1990.

Nonetheless, La Crosse remains the manufacturing town it has always been during this century. The number of manufacturers employing 20 or more has doubled since 1963. Its two largest employers are G. Heileman Brewery and Trane Co., maker of air conditioning, heating, and ventilation systems.

La Crosse's interstate highway, river, rail, and air transportation and its proximity to larger markets allow it to become an exporter of goods. Gateway Foods, CONTINUED ON PAGE 2
which owns Rainbow Foods, a large chain of discount supermarkets in the Midwest, is located here.

Sports is also part of the La Crosse picture. The National Football League's New Orleans Saints uses the University of Wisconsin La Crosse for its summer training, generating about $2.5 million for the economy during six weeks of what would otherwise be a slack time for the U. Unfortunately, the Catbirds, a Continental Basketball Association team, pulled out of town for the east coast this past May. "This will have a negative effect on La Crosse for a while," says Bud Miyamoto, executive director of Downtown Mainstreet, Inc., a downtown revitalization corporation.

Education is also a major enterprise. About 13,000 students attend classes at three institutions of higher education: the University of Wisconsin La Crosse, Viterbo College, and Western Wisconsin Technical College.

Tourism, a $93 million a year business, is growing, too, with a convention center in town and new development on the waterfront. La Crosse is in the beautiful region called the coulee, a French term for mountainous hills and narrow valleys. Tourism's biggest potential cash cow, riverboat gambling, was defeated two years ago in the Wisconsin legislature. Some feel that riverboat casinos in bordering Illinois and downstream on the Mississippi in Iowa are drawing tourists away.

Between a rock and a slow-moving river

La Crosse itself is virtually hemmed in by the Mississippi and its bluffs and by political boundaries separating it from other faster-growing communities. This limits the area, especially the central city, and demands some creative solutions.

One such solution is a downtown mainstreet revitalization corporation formed in 1990 to capitalize on the cultural and historical assets of the central business district. To back the effort, five local banks formed a consortium to provide a $1 million pool to fund low-cost loans for downtown businesses to restore and rehabilitate their properties. In less than a year, $450,000 had been loaned to 12 business. Although the banks probably will not make a direct profit on these loans, they're banking on the idea that the future of the downtown is their future as well. This loan program, which will run through 1994, is one way for the banks to enhance their Community Reinvestment Act performance.

Housing

Housing construction and availability are adequate in the area in general and commensurate with the steady growth in population, which is about 3% per year, according to Bill Sorenson, president of the Greater La Crosse Chamber of Commerce. "There is a broad-based housing stock, a mix of older, established homes and new tract homes in new developments," he says.

Things are a little different in the central city. Like core cities nationwide, housing quality is deteriorating. John Florine, community development analyst in the City Planning office, says that "for low and moderate income families affordable housing is a struggle."

Although the central city's population of 51,003 in 1990 has changed very little in the past 20 years, it has a different character. While the downtown is revitalizing, the center city is struggling to keep up.

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years, there has been a change in the makeup of that population. The minority population has increased dramatically, particularly with the arrival of more than 2,500 Southeast Asian refugees beginning in the 1970s. Typically poor, these newest immigrants are in competition for rental homes with the better-off student population.

It comes as no surprise that a 1993 housing affordability study conducted by the City of La Crosse found that the few areas of the highest minority populations also had the lowest income and lived in the areas of the oldest housing stock. There is virtually no new housing construction in the city of La Crosse, according to Florine. The city has housing rehabilitation and first-time buyer programs, among other programs, to help ease the situation.

Future prospects

Despite the challenges, however, by all measures the future looks bright for the La Crosse area. The economy is made up of a variety of small, strong industries, notably health care. Further, the center city is making progress in restoring its downtown stature and improving its housing.

"The challenge," says Miyamoto, "is to keep the momentum going and not to rest on our laurels."

CDC and Tech College to Build Houses

A bank holding company in La Crosse, Wis., is forming a community development corporation with an unusual purpose. Community First Development Corporation, a subsidiary of First State Bancorp, will provide both a learning opportunity for students at a technical college and put a house on the market in the price range affordable by low- to moderate-income families.

CFDC will work hand in hand with Western Wisconsin Technical College to construct the houses. CFDC will fund the purchase of the lot and materials and hire subcontractors, while the students in the college's Wood Technics program supply the labor under the supervision of their instructors. When the house is sold, the profits will be used by CFDC to cover the investment and fund similar projects.

In the future, CFDC plans to rehabilitate rental housing and owner-occupied housing for low- and moderate-income families, as well.

These projects are appropriate under the Community Reinvestment Act. Alan Wehrenberg, senior vice president of the holding company, says community development corporations "can make money. I am convinced they can make a profit and still do community good."

First State Bancorp is a one-bank holding company owning State Bank of La Crosse.

Hot off the Press

Developing Community Housing Needs Assessments and Strategies: A Self-Help Guidebook for Nonmetropolitan Communities

The American Association of Housing Educators (AAHE) has developed this guidebook which outlines a process for developing community housing needs assessments and strategies, provides information resources, and complements HUD's CHAS procedures. To order, send $10 to AAHE, Texas A & M University, College Station, TX 77843

Closing The Gap: The Movie


To obtain a copy, send your check for $9.95 to VIDICOPY Corp, 650 Vaqueros Ave., Sunnyvale CA 94086.

State member banks will receive a free copy by mail.
Safe Investing in Affordable Housing

La Crosse, Wis., is not unlike most of the cities in the Ninth Federal Reserve District. While it is not a major metropolitan area, it does have some of the characteristics shared by larger central cities—a generally aging population, an increasing population of poor minorities, and an older housing stock. But also like many cities throughout the Ninth District, La Crosse has some real bright spots. It has a good mix of industries, a strong and growing health care community, and a commitment to preserving the quality of life enjoyed by the citizens.

The preservation of quality of life and community revitalization are two areas where commercial banks can play a critical role because so much of what constitutes a strong and vital community involves capital—its availability and its cost. Community development lending and investment by commercial banks, that is, making the capital necessary for strong and vital communities available and accessible, are encouraged by the banks’ regulators, including the Federal Reserve System.

But what constitutes community development lending and investment? And perhaps more importantly from the banks’ perspective, what constitutes safe community development lending and investment?

The most easily appreciated components of community development lending and investment—and the elements that nearly everyone recognizes as activities that help communities remain strong and vital—are: Housing, Small Business Development, Downtown Revitalization, and Nonprofit Development. In this newsletter we will highlight housing development activities and bank investments in housing. We will address the other issues in future newsletters.

Safe, decent, affordable

The problems associated with the shortage of affordable housing are nearly pervasive in the country today, and La Crosse and cities throughout the Ninth Federal Reserve District are not immune to these problems. However, banks and bank holding companies are particularly well suited to assist in the development of affordable housing. An example of an innovative approach is the new community development corporation created by First State Bancorp, La Crosse. (See page 3.)

Banks throughout the country are investing in the Low Income Housing Tax Credit program, taking advantage of the Affordable Housing Program of the Federal Home Loan Bank System, creating targeted mortgage funds for low- and moderate-income families, and generally becoming perhaps the most important new player in affordable housing.

Need versus demand

What are the risks associated with housing investments, either from the debt or equity investment side of the equation? The first thing a bank must look at is the marketplace. Can a bank structure a housing development, from a financial perspective, to ensure that it matches the demand generated by the marketplace?

Is there demand for the product they are investing in, or is there only need? Homeless shelters are a case in point. There is no demand for homeless shelters in most instances. That is not to say that there is no need. But demand is a function of money, and people who are penniless and homeless create no demand for housing. A bank must be sure that it is investing in a product for which there is demand, assuming of course, that it is investing rather than making an outright donation. Donations help meet needs. Investments help meet demand.

Yield versus risk

In determining the relative risks of an equity investment in housing, a bank, like any other prudent investor, must strike a balance between the yield it will receive on the investment and the risk the investment represents. In the case of affordable housing, the risks increase substantially as the expectations for higher yields increase.

In other words, if the investor, a commercial bank for instance, expects to receive a yield on its investment of 20% rather than a more modest yield of 10%, there are generally only two ways to do it. It can try to increase the amount of cash that the project generates or it can decrease the amount of money it invests. In both instances, all things being equal, the yield will increase. But what are the consequences of either of these actions?

An affordable housing project can generate excess cash after its

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obligations (expenses and debt service) have been met by increasing rents over the amount necessary to provide an adequate debt coverage ratio, usually 1.15 to 1.2. But what happens when rents increase?

Assuming, of course, that you are able to increase rents without exceeding restrictions of the program you’re using, rent increases actually decrease the number of persons and families that can afford to live in the project. Limiting the number of families that can afford to live in the project usually increases the risk a project runs by increasing the likelihood that more apartment units will be vacant and they will be vacant for longer periods of time. This would not be true if there were a very large population of persons eligible to live in the apartments and there were very few apartments within the rent range that such families could afford.

As you can see, raising rents necessarily increases risk unless there is a very large eligible population not being adequately served in the market area.

The other method, decreasing the amount of the equity invested in a project, has the same effect as increasing cash with rents. When equity is decreased in a project the money must be made up somewhere else. Somewhere else usually means higher debt levels. Higher debt carries higher debt payments. And, of course, higher debt payments can only be carried by a project if rents are increased to cover the higher burden. The trade-off is clear. When a decision is made to seek a higher yield, the result is higher risk.

A bank, or any institution considering an equity investment in an affordable housing project, should know that there is a limited market and that by their nature, affordable housing projects must have lower rents to be affordable by the very people they are intended to serve. But what is too often lost in the review process is the consideration that projects with lower rents and higher equity amounts, though yielding lower returns to the investors, have as a consequence far lower risk.

Tools for affordable housing development

There are two national programs that are generally recognized as the two most valuable funding sources for the development of affordable housing. They are the Low Income Housing Tax Credit program and the Affordable Housing Program. These sources are very often used in conjunction with one another, and they are both competitively distributed.

- Low Income Housing Tax Credit program (LIHTC)

The single most important equity investment program available for the development of affordable housing for low income families is the LIHTC program. Under this program, investors receive tax credits, dollar-for-dollar reductions in taxes due, in return for investments in affordable rental housing projects. Many commercial banks throughout the nation have invested in this program. There are many restrictions regarding the use of the program and it requires careful thought and advice before investing, but yields through this program have generally been in the 15% to 20% range over the past five years. In future issues of Community Dividend we will explore in more detail the specific characteristics of the LIHTC program.

- Affordable Housing Program (AHP)

Some people believe that the AHP of the Federal Home Loan Bank System, like LIHTC, is the single most important source of debt financing available for the development of affordable housing. Member institutions of the Federal Home Loan Bank System can receive, on a competitive basis, direct advances or long-term funding for housing projects, the result of which can be interest rates as low as 0%.

A companion source of funds is the Community Investment Program. This source of funds, also from the Federal Home Loan Bank System, is not based on a competition and the subsidy is not nearly as deep, but the funds are generally lower than most conventional sources of debt financing.

There are many other programs available for developing affordable housing, including the Farmers Home Administration and state housing finance agency tax-exempt bonds, among others. But programs from either the Farmers Home Administration or tax-exempt bonds, when used in conjunction with the LIHTC program, have distinct disadvantages over an AHP loan from a member of the Federal Home Loan Bank System. Of course, there is a limited pool of AHP money and limited tax credits available, so some projects can be and should be financed through Farmers Home
(for rural projects) and state housing finance agency programs.

There are many more issues than those highlighted here. In future issues of Community Dividend we will explore housing issues in more depth, as well as the complex subjects of downtown revitalization, small business assistance, and working with nonprofits.

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**Calendar**

"Housing Tax Credit Solutions: Successful Outcomes to Today’s Key Development, Syndication and Management Questions." Housing and Development Reporter and The Institute for Professional and Executive Development. (202) 331-9230

- July 14-15 San Diego, CA


- July 24-27 Lincoln, NE

Fair Lending Seminars for CEOs. Federal Financial Institutions Examination Council. (703) 516-5588

- July 18 Washington, DC

- Aug. 19 Chicago, IL

- Nov. 4 San Francisco, CA