FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 16, Issue 2
CI Notebook

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Introducing Janet Yellen
When Bob Parry retired in June after 18 years as president of the Federal Reserve Bank of San Francisco, we in Community Affairs felt a particular loss. Bob had been a champion of our community development work in the 12th District and we benefited from his support. He moved the community development industry forward in important ways, most notably by facilitating the creation of statewide multi-family affordable housing loan consortia throughout the District. Bob's support led us to try new programs, lead innovative initiatives, and explore new areas for Fed involvement.

Bob was going to be a tough act to follow, but when the Fed announced the appointment of Janet Yellen as our president, we recognized a new ally. She is a renowned economist, noted for her research in areas that affect low- and moderate- income people and communities including issues such as unemployment, labor markets, and income and wage inequality. As chair of President Clinton's Council of Economic Advisers, she was involved with welfare reform, and as a Fed Governor she served on the oversight committee monitoring the work of Community Affairs throughout the Fed System.

We feel fortunate that Janet understands the importance of community development. She's made it clear that she is interested in learning more about and playing a role in our various initiatives. In fact, her first public meeting was with a community advocacy organization during which she gained a better understanding of issues facing this District's low- and moderate-income communities.

It’s convenient to have support from the top. As we often tell bankers, senior-level support for community development efforts is critical to any bank’s success in the community. It’s nice for us that we can practice what we preach.

FEDERAL RESERVE BANK
OF SAN FRANCISCO

Community Investments Vol 16, Issue 2 Increasing the Harvest for Farmworker Housing (Abstract)

Author(s): Lena Robinson
September 2004

Introduction

The McMullen Valley, which lies between two mountain ranges in southwest Arizona, is a fertile valley noted for agriculture where labor-intensive crops such as cantaloupe, honeydew, and watermelon are grown. Cotton, wheat, carrots, and onions fill out the harvest that makes the success of agriculture in the valley highly dependent on the availability of seasonal and full-time workers. An already existing severe housing shortage for these workers was worsened in October 2000 when twin devastating floods struck (read the full story of Wenden-Salome).

At the time of the flood, numerous farm workers were sleeping under bridges and trees along a tributary of the Colorado River. Many were crowded into trailers with inadequate plumbing, which created sanitation problems. According to George Saiter, executive director of the Wenden-

Salome Flood Recovery Commission, the shortage of housing is evidenced by the amount of garbage and human feces in and around Wenden and Salome each harvest season. Everything remotely resembling a dwelling is occupied or overloaded, resulting in a slum housing environment with unsanitary living conditions and safety hazards.

McMullen Valley's conditions are common to farm communities everywhere and especially those that rely on a large temporary workforce. Such conditions as overcrowded and dilapidated housing for the lucky few who actually find shelter are contrasted with homelessness for those that cannot. The good news is that efforts are underway to provide shelter for this vital human resource—farm workers.

The full-length version of this article, Increasing the Harvest for Farmworker Housing, highlights a few of the initiatives taking place in California, Oregon and Washington to increase the availability of decent and affordable housing for farm workers.

The Crisis

Agriculture is a significant economic engine for the West, representing a total of almost $40 billion dollars in gross state product for the nine states that comprise the Federal Reserve Bank of San Francisco's 12th District (see graph 1[1]). The seasonal nature of farming causes the population of farm workers to balloon for a brief period, resulting in a short-term housing crisis for often unprepared communities. A three-year survey of housing availability and conditions for migrant and seasonal farm workers conducted by the Housing Assistance Council found that 52 percent of the housing intended for single-family occupancy was overcrowded.

Aside from the challenge of providing housing for this transient population, the limited housing available for permanent farm workers in predominately agricultural communities is often overpriced or substandard. This same survey found that 32 percent of farmworker housing units in the four western states surveyed (CA, ID, OR, WA) could be considered either "moderately" or "severely substandard" with such conditions as sagging roofs, broken windows and rodent infestation. The majority of these units had children present.[2]

Graph 1: 2001 Gross State Product (millions of dollars)

State	Total GSP	Ag. Services, Forestry & Fishing	Farms	Agriculture as a % of total GSP
US	$10,137,190	$60,054	$80,596	1.39%
AK	$28,581	$476	$21	1.74%
AZ	$160,687	$1,266	$1,339	1.62%
CA	$1,359,265	$11,667	$12,768	1.80%
HI	$43,710	$216	$288	1.15%
ID	$36,905	$452	$1,691	5.81%
NV	$79,220	$425	$204	0.79%
OR	$120,055	$1,427	$1,648	2.56%
UT	$70,409	$283	$592	1.24%
WA	$222,950	$2,329	$2,428	2.13%
		$39.52 billion		

Barriers and Solutions

In addition to financing, there are three common barriers to developing affordable housing in farming communities: unincorporation, zoning and limited space. Unincorporated rural areas frequently lack the infrastructure to support any type of housing development. The additional cost of installing basic water, sewage and energy infrastructure makes the price for even the most modest housing project prohibitive, particularly if the units are targeted at a seasonal population. In many states, special permission must be obtained to build housing on land zoned for agricultural use. In other states, the proximity of agriculture to cities or strict restrictions on growth limits the land available for new housing. How different states and jurisdictions cope with addressing these barriers not only determines whether housing is available, but can serve as an example for others to follow.

Whether trailers, tents, dormitories, sweat equity homes or apartment units, the efforts to overcome multiple barriers to produce affordable housing for farm workers are as varied as the crops grown. Where possible, the approach that seems to show the most promise is rehabilitation of existing housing. Rehabilitation reduces pre-development costs associated with new construction and delays that can come from permitting and zoning, in addition to eliminating blight. But, rehabilitation is not a universal solution. As illustrated by the examples discussed, the solution that any location decides on will depend on factors and resources unique to that community.

An R.V. that will need to be removed - there were many R.V.s on the site - most of them have already been taken out, some purchased by CHOC in order to facilitate the move

Casa Del Sol (Woodland, California)
One such example is Casa Del Sol in Woodland, California. The Rural Community Assistance Corporation-sponsored project exemplifies the ways that diverse organizations can collaborate to meet the health and housing

needs of agricultural workers. Community Housing Opportunities Corporation (CHOC) joined together with the Yolo County Health Department and California Human Development Corporation on a project that will benefit agricultural workers and other low-income families. CHOC will substantially rehabilitate two adjacent mobile home parks to achieve a finished complex that will provide 127 homeownership mobile home pads, 29 rental units and one manager’s unit. Purchase and rehabilitation of the parks will eliminate blight, preserve low-income housing and improve the quality of both housing and health for agricultural worker families in the community.

One of the existing mobile homes - in good condition

CHOC is in the final phase of completing a complex financing package for this project. Speaking about the project’s funding sources, Paul Ainger, CHOC director of development said, “I think one unique part of the project is the partnerships that we have created with all interested parties.” The City of Woodland has provided solid support through a CDBG Section 108 loan; the California Department of Housing and Community Development provided assistance with a $1.5 million farmworker grant[3] and a $1.5 million loan from the Mobilehome Park Resident Ownership Program (MPROP).[4] RCAC is contributing $1.2 million from its Agricultural Worker Health and Housing Program (AWHHP).5 The private sector has also demonstrated support for the project. Red Capital Mortgage is providing a construction loan and a 40-year first mortgage on the property. Bank of America has provided a leadership role in helping CHOC secure these private financing commitments and is providing construction financing. The Federal Home Loan Bank of San Francisco delivered a $660,000 AHP grant and HUD provided an FHA 207(m) credit enhancement that enabled the 40-year mortgage on the project.

Heritage Glen (East Wenatchee, Washington)
In Washington State, the Office of Rural and Farmworker Housing has found a way to sustainably provide housing for seasonal workers. Heritage Glen consists of 35 housing units for farm workers and their families, with a maximum occupancy of 210 persons. Eighteen of the housing units are set aside seasonally for workers whose primary residence is elsewhere. These units are designed to accommodate either groups of unaccompanied workers or small families. The other 17 units are operated year-round for local agricultural employees.

The development includes a laundry facility, play areas and a maintenance shop. Heritage Glen is located in a residential area of East Wenatchee. By combining both seasonal-occupancy and year-round units, the cashflow is more balanced and the site is not vacant during the winter off-season. Year-round residents continue to be excellent ‘eyes and ears’ on-site.

Heritage Glen is owned and operated by the Housing Authority of Chelan County/City of Wenatchee, which also operates 124 additional farm worker housing units on nine other sites. Heritage Glen opened in 2002, and was developed with capital financing from the USDA Rural Housing Service and the Washington State Housing Trust Fund. USDA also provides full rental assistance, allowing residents to pay 30 percent of the average monthly income for rent and utilities.

[1]http://www.bea.gov/bea/regional/gsp

[2]No Refuge From the Fields: Findings From A Survey of Farmworker Housing Conditions in the United States©, Housing Assistance Council, 2001: p.9 http://www.ruralhome.org/pubs/farmworker/norefuge/execsumm.htm

[3]Joe Serna Grant, http://www.hcd.ca.gov/ca/fwhg/

[4]http://www.hud.gov/local/shared/working/localpo/xmfhsgmobilehomefacts.pdf

[5]Rural Community Assistance Corporation (RCAC) assists rural communities in 13 Western states achieve their goals and visions by providing training, technical assistance and access to resources. RCAC has worked in affordable housing and environmental infrastructure for more than 25 years, and in 1999 established the Agricultural Worker Health and Housing Program (AWHHP) with a $31 million award from The California Endowment. Through the AWHHP, RCAC has allocated loans and grants to partnerships between health and housing organizations that effectively link health programs with affordable housing for agricultural workers in California, their families and their communities.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 16, Issue 2 Increasing the Harvest for Farmworker Housing

Author(s): Lena Robinson
September 2004

Agriculture is a significant economic engine for the West, representing a total of almost $40 billion dollars in gross state product for the nine states that comprise the Federal Reserve Bank of San Francisco's 12th District (see graph 1). The diversity of agricultural products found in the west is also a phenomenon producing the greatest variety of fruits, vegetable, flora and aquaculture in the United States. In fact this region can claim recognition as the exclusive domestic producer of several crops such as kiwi fruit in California, red raspberries in Washington and of course macadamia nuts in Hawaii.

Graph 1: 2001 Gross State Product (millions of dollars)

State	Total GSP	Ag. Services, Forestry & Fishing	Farms	Agriculture as a % of total GSP
US	$10,137,190	$60,054	$80,596	1.39%
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		$39.52 billion		

Such diverse and abundant output not only yields a significant income, but requires a huge labor pool to get the produce from the fields to the markets. Many crops are still quite labor-intensive for both cultivation and harvest, with harvest in particular being most demanding because it must be done within a limited time period. According to data collected by USDA's National Agricultural Statistics Service, most farms consist of ten or more laborers working fewer than 150 days per year. For 2002, USDA puts the number of farm workers of all types (i.e. year-round, seasonal and migrant[1]) in the 12th District at over one million—34 percent of farm workers nationwide.[2]

The National Agricultural Workers Survey (NAWS) conducted in 1997-98 by the Department of Labor calculates 56 percent of farm workers as migrants (i.e. traveling between regions and states to secure work) while 44 percent reside in their communities year-round.[3] The seasonal and large-scale nature of farming causes the population of farm workers to balloon for a brief period, resulting in a short-term housing crisis for often unprepared communities. A three-year survey of housing availability and conditions for migrant and seasonal farm workers conducted by the Housing Assistance

Council found that 52 percent of the housing intended for single-family occupancy was overcrowded.[4]

Aside from the challenge of providing housing for this transient population, the limited housing available for permanent farm workers in predominately agricultural communities is often overpriced or substandard. This same survey found 32 percent of farmworker housing units in the four western states surveyed (CA, ID, OR, WA) could be considered either “moderately” or “severely substandard” with such conditions as sagging roofs, broken windows and rodent infestation. The majority of these units had children present.

Barriers and Solutions

In some communities, farm workers are simply one segment of the low-income population that is seeking decent housing within their means. In other communities, farming is the primary—if not the only—industry, with its own set of requirements that further complicate the effort to provide housing for this segment. According to the NAWS study, chronic underemployment and stagnating wages among farm workers puts this population at a disadvantage over other low-wage workers. This article looks at some of the ways that the challenges of both seasonal and permanent housing are being addressed in California, Washington and Oregon--states with the highest number of farm workers, largest number of farms and highest percent of migrant labor in the west (see Graph 2). It is also interesting to note that the poverty rate in counties listed as top producers of agricultural revenue often exceeds the state average. The combination of all these factors seems to underscore the problems of density and affordability that show up consistently in the effort to house farm workers.

Graph 2: Farmworker Statistics for the 12th District of the Federal Reserve[1]

States	# of workers[2]	Total Farms	# of Farms w/ 10 + Workers	Avg # of Workers on Farms with 10 + Workers	Working greater than 150 Days (Farms)	Working less than 150 Days (Farms)	% of Farms w/ Migrant Labor
Alaska	1,774	240	49	24	105	223	<1%
Arizona	36,459	2,678	609	50	1,786	1,755	16%
California	535,256	34,342	9,987	46	19,950	25,984	30%
Hawaii	12,640	1,527	271	33	834	1,141	15%
Idaho	49,390	6,995	1,038	31	3,448	5,727	17%
Nevada	5,177	1,024	107	25	631	753	<1%
Oregon	122,845	10,978	2,377	41	4,199	9,650	17%
Utah	20,703	4,570	379	24	1,817	3,768	<1%
Washington	262,528	13,598	4,660	50	6,238	12,069	26%
	1,046,772						

[1] Information provided from Table 7 of the 2002 Census of Agriculture state level data (http://www.nass.usda.gov)
[2]The Department of Health and Human Services commissioned an enumeration study that provides a by-county count and overall reveals a significantly larger number of workers (http://www.bphc.hrsa.gov/migrant/Enumeration/EnumerationStudy.htm; http://www.casaoforegon.org/farmworker%20enumeration%20study.pdf).

[1]http://www.nass.usda.gov

Farm Statistics for the 12th District of the Federal Reserve

Financing

Figuring out how to finance projects targeted at a population that earns roughly 48 percent of wages paid to production workers in the non-farm sector is a significant challenge.[5] The reality of almost every farmworker housing project is the complexity of financing that involves a web of partners and various layers of subsidies. Federal and state government assistance is available through several programs including USDA 502 self help, USDA 514 loan and 516 farm worker housing grants,[6] Low Income Housing Tax Credits, CDBG grants, HUD Rural Housing and Economic Development[7] and state housing trust funds.

The Rural Community Assistance Corporation (RCAC)-sponsored Casa Del Sol project illustrates many of the resources and partners needed to take a development from concept to fruition. It also includes a component of philanthropic financing, which is recognized as an essential element in subsidizing housing for temporary and low-wage workers.

CASA DEL SOL (Woodland, CA)	
SOURCES	**AMOUNT**
City of Woodland (CDBG 108 loan)	
CA Dept of Housing and Community Development	$1.5 million Joe Serna grant[8] $1.5 million Mobilehome Park Resident Ownership Program[9]
Rural Community Assistance Corporation	$1.2 million AWHHP grant funded by the California Endowment
Red Capital Mortgage	Construction loan and 40-year first mortgage
Bank of America	Construction financing
Federal Home Loan Bank SF	$660,000 AHP grant
Housing and Urban Development	FHA 207(m) credit enhancement[10]

Beyond financing, there are three common barriers to developing affordable housing in farming communities: unincorporation, zoning and limited space. Unincorporated rural areas frequently lack the infrastructure to support any type of housing development. The additional cost of installing basic water, sewage and energy infrastructure makes the price for even the most modest housing project prohibitive—particularly if the units are targeted at a seasonal population. In many states, special permission must be obtained to build housing on land zoned for agricultural use. In other states, the proximity of agriculture to cities or tight restrictions on growth limits the land available for new housing. How different states and jurisdictions cope with addressing these barriers not only determines whether housing is available, but can serve as an example for others to follow.

CALIFORNIA

Limited space and astronomical costs for both construction and land are the top barriers to providing adequate housing for farm workers in California. And yet one of the most innovative solutions for farmworker housing comes from a location that embodies every obstacle associated with affordable housing: the Napa Valley.

Since 1992, Napa County has collected nearly $11 million dollars by taxing residential and commercial construction for a trust fund that finances the construction and preservation of housing for low-income Napa County residents. This relatively compact geography with expensive real estate and very low vacancy rates is overwhelmed every year with numerous grape harvesters. However, with the cooperation of perhaps the most critical stakeholders--the growers and wineries--local zoning laws were altered to allow housing on agricultural lands, motivating several growers to not only donate land but also construct both temporary and permanent facilities. The annual cost to operate this temporary housing –which has added 300 beds--is subsidized with the support of annual fundraisers and donations from a local trade association—the Napa Vintners Association.

In the San Joaquin valley, a longer growing season, extensive variety and, large crop volumes, and agricultural processing jobs support year round employment reducing excessive seasonal swelling common to other regions. In this eight-county area that spans the center of California, the need for housing is for permanent units that can be afforded by larger families. Self-Help Enterprises (SHE), a nonprofit housing developer serving this expansive region, has responded to this need with a focus on self-help homeownership units, rehabilitation and infrastructure development. With generous donor support and sweat equity from families—most farmworker families-- SHE produced over 100 new homes in 2003 alone.

Throughout California, the boundary between urban and rural is frequently seamless with many farms in the backyard of cities or on the boundary of expensive suburbs. With this kind of close proximity comes NIMBY backlash. In Oxnard, California, a coastal city in Ventura county, House Farm Workers! is heading off NIMBYism through community building. *House Farm Workers!*, a project of the Ventura County Ag Futures Alliance Farm Worker Housing Task Force, proposes to increase the supply of farmworker housing through community education, dialogue and advocacy. Education is conducted through the use of specially created videos and speaker bureaus to inform the public about the farm worker housing crisis and its effect on the local agricultural economy.[11] The county wide task force and local action groups are focused on addressing resistance by homeowners to the building of higher density and low-income housing, a lack of sites, and a lack of political will to support farmworker housing construction. The project overcomes these obstacles by empowering farm worker families to become strong, vocal advocates for proposed farm worker housing projects in their communities. The groups also foster relationships with elected officials through private meetings and at council meetings.

OREGON

In Oregon, strict zoning laws and smart growth policies intended to preserve open space and agricultural land impedes the capacity for developing farm worker housing near or on farms. And yet in 1989, the Oregon legislature passed a state tax credit to encourage more housing for farm workers. The tax credit can be used by developers to build new housing or rehabilitate existing housing, much of which are farm labor camps that are several decades old. Despite the tax credit, which was increased in 2001 to allow deduction of 50 percent of the eligible costs incurred, the number of units available to house farm workers in Oregon is decreasing. However, the possibility of transferring 100 percent (effective 1/05) of the credit to a donor and the increase in funds allocated—currently $7.25 million—makes the tax credit not only an incentive for donors but a promising tool for farm worker housing. (Note: Oregon lenders qualify for a different state tax credit for loans made to construct or rehabilitate farm worker housing).[12]

Nonprofit organizations acting as housing developers such as Community and Shelter Assistance Corporation (CASA) of Oregon and Housing Development Corporation of Northwest Oregon are finding success in their efforts to provide housing in-town for year-round farm workers. And while community-based housing –as opposed to on-farm—offers many advantages such as access to services, stability and reduced dependence on the employer, the higher cost of housing production in urban and suburban areas limits the amount of housing stock that can be built and absorbs a larger portion of the limited income farm workers earn.[13] It also increases the competition among low-wage workers for a shrinking supply of affordable housing.

To address the need for seasonal housing that is needed by migrant or temporary crop harvesters, Peter Hainley, executive director of CASA, believes that the answer may be to stimulate the economy of rural areas to employ more residents and support additional housing. Integral to this strategy is increased funding for rural nonprofits that are involved with providing a range of services in these communities including job development, asset building, self-help housing and health programs.

Towards this goal, CASA became certified as a Community Development Financial Institution (CDFI) in 2000 in order to facilitate the development of housing and other essential community facilities (e.g. community centers, medical facilities and Head Start buildings) in underserved rural areas. One of the primary activities of the CDFI is to finance predevelopment activities such as market analysis, environmental studies and land acquisition. CASA also provides critical construction financing to keep the project on target in anticipation of funding from multiple sources. Recruiting contributors for this fund is a priority for CASA as the funding directly stimulates new construction by increasing the capacity of local nonprofit project sponsors.

Catholic Charities is one such project sponsor that CASA has assisted. The project, Sandy Vista, is located in the small suburban town of Sandy and near the largest nursery producing area in the state. The land was acquired from a private owner on the contingency that it would be annexed into the town in order to avoid potential NIMBY issues that could result from a public hearing. The annexation also conveyed an infrastructure benefit to the town because of the new sewer system that was completed for the project. Phase one of the 54-unit housing development and community complex that will house both migrant and year-round farm workers was just completed. The first phase includes the 30 units to be occupied by migrant farm workers and their families that move from farm to farm following various seasonal crop harvests. This kind of housing can be especially difficult for workers to find because of the short-term nature of residency. The second phase of 24 units for year-round farm workers and their families is currently under construction.

Sandy Vista	Budget	USDA /RD	Trust Fund	HELP[1]	HOME	FWTC	FHLB	ORR[2]
Phase One	$4,168,436	$2,810,436	$100K	$75K	$400K	$568K	$209K	
Phase Two	$3,537,183	$2,114,359	$100K	$75K	$300K	$670K	$168K	$100K

1 http://www.ohcs.oregon.gov/OHCS/HRS_HELPFacts.shtml
2 http://www.ohcs.oregon.gov/OHCS/HFS_ORRFacts.shtml
The Sandy Vista project is an excellent example of the many different funding sources that come together to make a project possible.

WASHINGTON

Washington state exemplifies the importance that leadership plays in how funding is allocated and prioritized. Washington's Governor, Gary Locke, identified housing for farm workers as the most critical housing need in the state, appropriating an additional $8 million commitment from the state capital budget biennially for 10 years to finance both permanent and seasonal housing. The use of Low Income Housing Tax Credits for farmworker housing projects is also strong in Washington, reflecting a resource allocation priority for housing in rural areas. The result has been a number of innovative and creative farmworker housing solutions. Since 1998, the number of permanent units has roughly doubled to almost 1300 beds and the number of temporary beds has seen an extraordinary growth to almost 4000.

In particular, there appears to be more on-farm housing per capita in Washington than in any other state discussed in this article. A number of Oregon farms have labor camps, but many of these are operating without certification due to rigorous health and safety standards imposed by the state and the cost of complying with these standards.[14] The success of using farm land for housing in Washington is based on the strong coordination of government, private and nonprofit stakeholders such as the state-funded One Stop Development Center,[15] the Washington Growers League, the Office of Rural and Farmworker Housing (ORFH),[16] community-based developers and of course the farmers themselves.

In the realm of temporary housing, perhaps nothing reflects innovation and partnership more than the Rent-a-Tent program. (In California, rather than tents, Yurts serve as temporary housing for seasonal workers in the Napa Valley.)[17] Although controversial among several affordable housing advocates as a long-term solution, the success of this practical experiment is a compelling strategy worth highlighting. The Rent-a-Tent program started in 2000 with a demonstration grant from HUD. What began with a few tents has grown into 193 tents on 13 cherry farms across eastern Washington. Each tent can house six persons during the six-week cherry harvest season. Prior to the tents, many of the cherry harvesters simply camped wherever they could in their own tents. Currently, the Department of Community, Trade and Economic Development (WTED) purchases the tents with state funds and rents them for $75 per week to eligible growers who have developed the necessary infrastructure to support housing. At an initial cost of $3,100 and expected utility of seven years, the tents appear to represent a viable solution. Pat Arnold, newly appointed housing program manager at the Washington Growers League, reports that she will continue to seek efficiencies for the Rent-A-Tent program in the areas of labor and storage and looks forward to identifying other equally innovative partnerships that benefit the farmers and laborers.

Farmers can access state-funded technical assistance to develop infrastructure that meets state and county regulatory guidelines. Creative Housing Solutions, INC., which provides this assistance on behalf of the state's One Stop Development Center, also serves as a liaison between the farmers and various government departments that determine the regulations. Their role as liaison has helped to build trust with the farmers and reduce some of the regulatory red tape for the shared goal of increasing farmworker housing. Although many farmers charge the workers a nominal fee to cover utilities such as water and electricity, the cost of financing the infrastructure is still often prohibitive. Dixie Tracht, executive director of Creative Housing Solutions, sees this as an important area that bank and/or nonprofit lenders can fill through low-interest loans.

Another strategy to close the gap on construction costs, development fees and other expenses associated with housing development for farm workers and their families is a farmworker trust fund proposed by U.S. Senator Patty Murray. Similar to the Napa, California model, the trust fund will be a vehicle for private and philanthropic dollars to be amassed on behalf of farmworker housing. According to Brien Thane of the Office of Rural and Farmworker Housing, currently the fiscal agent managing seed funds that Senator Murray secured to help establish the trust fund, it would be used to expand the managerial capacity of organizations involved with housing development and cover a number of miscellaneous costs that can derail otherwise feasible projects.

Regional Solutions Beyond Housing

The sheer number of farm workers in California, Oregon and Washington, and the remarkable impact to these states' gross state product necessitated solutions. But what about other states that are not faced with this same degree of population and land pressure. Do states with fewer farm workers – especially migrants-- and a lower cost of living cope better with housing these workers? For the community of Wenden-Salome, Arizona, the answer appears to be no. The seasonal influx of agricultural workers in this western valley region of Arizona actually exacerbates an already economically and physically impaired community. The Wenden-Salome Flood Recovery Commission, Inc. is taking up the charge to improve the quality and availability of housing for the general area, which is seen as a more holistic and sustainable approach than merely providing housing for farm workers (see Wenden-Salome).

Agricultural Data for Federal Reserve Bank of San Francisco's District[1]

	Alaska	Arizona	California	Hawaii	Idaho	Nevada	Oregon	Utah	Washington
	Alaska Receipts from Farm Marketings (2002)	*Arizona Annual Crops (2003)*	*Agricultural Statistical Review (2001)*	*Statistics of Hawaii Agriculture (2002)*	*Annual Bulletin (2003)*	*Nevada Agricultural Statistics (2002)*	*Oregon Agriculture: Facts & Figures (2002)*	*Annual Bulletin (2003)*	*Washington Agriculture (2002)*
percentage of land that is dedicated to agriculture[2]	n/a	36.6	27.6	31.6	22.2	9	27.8	22.3	36
top three commodities (by value)	livestock	cotton	milk and cream	pineapples	potatoes	cattle & calves	greenhouse & nursery	cattle and calves	apples
	aquaculture	hay	grapes	sugercane	wheat (all)	dairy products	cattle and calves	milk	milk
	greenhouse & nursery	wheat	nursery	seed crops	barley	hay (all)	hay (all)	hay	wheat
top three counties by revenue (poverty rate for individuals in 1999)	Matanuska Valley[3]	Yuma (19%)	Fresno (23%)	Hawaii (16%)	Twin Falls (13%)	Elko (9%)	Marion (7%)	San Juan (31%)	Grant (17%)
	Tanana Valley	Maricopa (12%)	Tulare (24%)	Maui (11%)	Canyon (12%)	Washoe (10%)	Clackamas (7%)	Box Elder (7%)	Franklin (19%)
	Kenai Peninsula	Pinal (17%)	Monterey (14%)	Kauai (11%)	Bingham (12%)	Humboldt (10%)	Washington (7%)	Duchesne (17%)	Yakima (20%)
market value of products sold[4]	$46.1 million	$2.45 billion	$25.7 billion	$5.42 million	$3.91 billion	$5 million	$3.6 billion	$1.12 billion	$5.33 billion

[1] State reports, National Agricultural Statistical Services, USDA
[2] *Table 8. Land in Farms*, 2002 Census of Agriculture; USDA
[3] Alaska does not differentiate its agricultrual areas according to the census designation of boroughs which prevents being able to calculate poverty rates.
[4] http://www.nass.usda.gov/census/

This parallels the approach of nonprofits in other geographies with a significant reliance on seasonal farm workers or migrants, many of whom ultimately end up settling in the community after the harvest is completed. The Idaho Migrant Council, Centro de la Familia de Utah, PPEP, Inc. of Arizona and Mid-Peninsula Housing Coalition of California are going beyond just housing to focus on solutions that empower the individual such as literacy and ESL training, job skill development, health services and Head Start programs. Rural Community Assistance Corporation, which assists rural communities in 13 western states, also recognizes the importance of a multi-pronged approach in serving agricultural workers. RCAC has worked in affordable housing and environmental infrastructure for more than 25 years and in 1999 established the Agricultural Worker Health and Housing program (AWHHP) with a $31 million award from The California Endowment.

Farm workers are enormously important to the economy of the west. Of the nine states that comprise the Fed's 12th District, six depend on temporary (i.e. migrant and seasonal) resources to meet the demands of their agricultural output. The solutions and organizations highlighted in story, demonstrate the importance of local leadership in resolving a complex issue.

Whether trailer parks, tents, dormitories, sweat equity homes or apartment units, the efforts to overcome multiple barriers to produce affordable housing for farm workers are as varied as the crops grown. Where possible, the approach that seems to show the most promise is rehabilitation of existing housing such as trailer parks in California. Rehabilitation reduces pre-development costs associated with new construction and delays that can come from permitting and zoning, in addition to eliminating blight.

But, rehabilitation is not a universal solution. As illustrated by the examples discussed, the solution that any location decides on will depend on factors and resources unique to that community. Hopefully these examples will prompt new ideas for dealing with a problem that touches many segments of society—decent and affordable housing – and motivate you to seek out and support organizations that are successful in housing farm workers.

Food for Thought

In addition to being successful agents of community development, these and other organizations focused on housing farm workers can also serve as effective partners for reaching a significant unbanked population. The opportunity appears to be ripe to provide financial education and services for a population that relies on informal mechanisms for cashing payroll checks and other financial transactions. At least some of these farm workers remit money to relatives in other countries, while others are looking to establish permanent roots through homeownership. A close working relationship with organizations that are resolving one of the most basic needs—housing—presents financial institutions with myriad opportunities to strengthen rural economies and serve an often overlooked demographic—farm workers.

Read more……
David Sidley, Coachella Valley Mobile Home Parks Transformed, Rural Voices, Housing Assistance Council, Summer 2003: pp 21-22.

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[1]For the purposes of this paper, the definition for migrant is that used by USDA to mean a farm worker whose employment required travel of more than 75 miles and prevented returning to his residence the same day.

[2]Table 7. Hired Farm Labor, 2002 Census of Agriculture; USDA.

[3]Findings from the National Agricultural Workers Survey 1997-98, Department of Labor, March 2000.

[4]No Refuge From the Fields: Findings From A Survey of Farmworker Housing Conditions in the United States©, Housing Assistance Council, 2001: p.9.

[5]Findings from NAWS.

[6]Rural Housing Services's Section 514/516 Farm Labor Housing Program: A Guide for Applicants.

[7]The Rural Housing and Economic Development (RHED) Program provides for capacity building at the state and local level for rural housing and

economic development and to support innovative housing and economic development activities in rural areas. Funds made available under this program are awarded competitively on an annual basis through a selection process conducted by HUD.

[8]Joe Serna Grant.

[9]Mobilehome Park Resident Ownership Program.

[10]http://www.hud.gov/local/shared/working/localpo/xmfhsgmobilehomefacts.pdf

[11]*Mi Casa Es Su Casa* (17 minutes) and *A Piece of the Puzzle* (10 minutes) can be ordered from Point of View Films by contacting Dulanie Ellis at 805/640-1133 or via email. Contact Jessica Arciniega at 805/486-9665 or via email for more information about House Farm workers!

[12]Oregon Farmworker Housing Tax Credit Program

[13]Farm workers In Oregon, a study of the League of Women Voters of Oregon, Fall 2000.

[14]Farm workers in Oregon

[15]The One-Stop Development Center is a state-funded clearinghouse within the Department of Community, Trade and Economic Development to assist farmers plan and finance farmworker housing, obtain construction bids, building permits, and regulatory approvals. It operates a toll-free telephone number and also works on-site to provide consultation and advice regarding the development of farmworker housing. The Center was a critical partner in providing technical assistance to farmers who participated in the Infrastructure Loan Program.

[16]The Office of Rural and Farmworker Housing (ORFH) is a private, statewide nonprofit corporation that develops housing for farm workers and other rural, low-income residents of Washington State. ORFH provides direct, comprehensive, development services to local nonprofit corporations, housing authorities, municipalities and other organizations and individuals interested in developing farm worker housing.

[17]Jenny Gomez, *Local Housing Trust Funds Plus Collaboration Equals Affordable Housing in Napa Valley*, Rural Voices, Housing Assistance Council, Summer 2002: pp 16-17.

FEDERAL RESERVE BANK
OF SAN FRANCISCO

Community Investments Vol 16, Issue 2
A Recipe for CRA Success

Author(s): Justina Gamboa-Arce, CRA & Community Development Officer, Valley Independent Bank
September 2004

Introduction

For Valley Independent Bank (VIB), headquartered in El Centro, California, community development is much like cooking -- an art requiring certain skills, proper tools, attention to detail and a commitment to producing a quality product. These are all factors that contribute to a successful CRA program. The result of VIB's efforts was an "outstanding" CRA rating from the Federal Reserve Bank of San Francisco for the Bank's investment, service and lending performance within its largely rural and economically challenged communities.

In the past six years, VIB has experienced tremendous asset growth – expanding from a $700 million institution to one of about $2.4 billion today. During that time, VIB's community development activities expanded on the same scale. Examples of Valley Independent Bank's community development accomplishments include:

- Over $100 million in financing of community facilities and rural service providers, including hospitals, water districts, health clinics, schools and affordable housing since January 2003.
- In 2003, Valley Independent Bank was recognized by the United States Department of Agriculture as the Lender of the Year for

> “financing businesses that improve the economic and environmental climate of rural communities.”

This article highlights VIB’s key focus areas for developing a successful CRA program: engaged leadership, partnerships, documentation, and motivation.

Progressive and Engaged Leadership
“If you don’t know where you’re going, any road will get you there.” This is certainly not the case in the operation of a successful business. Our community development initiatives remain consistent with our business goals and unquestionably contribute to “the bottom line.” Any program, promotion, initiative, or objective worth pursuing requires a plan and the commitment of management to achieve it. An effective CRA program must be sold to management as an essential element to the Bank’s overall business plan -- not just for compliance, but for the development of the business base through sustainable, profitable, and marketable tactics.

The commitment of a progressive and engaged board of directors and management team are key factors in Valley Independent Bank’s extraordinary success in meeting the financial needs of its communities. The Board and senior management are actively involved in the planning and implementation of strategic community development initiatives. Eight members of senior management and one director serve as the Bank’s CRA and Community Development Committee, which meets quarterly and has a direct reporting line to the Board.

The board and senior management team set the direction and commitment, communicating the message to bank staff that the Community Reinvestment Act is not just a regulatory requirement, but a true business strategy, and perhaps more importantly, essential for the economic vitality of our communities.

The leadership of the Bank has also made its commitment to CRA clear by setting aggressive annual CRA performance targets, as well as incorporating specific CRA driven initiatives into Valley Independent Bank's Strategic Plan.

Select Your Partners Wisely

True in marriage, true in business, and true in terms of successful and sustainable community development initiatives. Developing the right partners is critical for successful project implementation and sustainable community development initiatives. A bank should seek three different types of partners: (1) local community partners who are keenly tied to its target group be it the small business or farming community or low- and moderate-income residents (e.g. nonprofit entities; community development corporations, or local groups or associations); (2) industry colleagues—partners with whom it can share resources and expertise to effectively serve its target group (e.g. other financial institutions, bank regulators and consultants); and (3) external resource partners with whom its funds can be leveraged either through gap financing, grant subsidies, or loan guarantees (e.g. USDA Rural Development, Federal Home Loan Bank, Small Business Administration).

Local community partners are essential in reaching target groups, particularly if these groups are not identified as the bank's direct target market. For example, VIB has traditionally been regarded as a commercial bank and agri-business lender; however, we also have an outstanding record for meeting the affordable housing needs of low- and moderate-income consumers and their families. VIB accomplishes this by partnering with local public housing authorities and in-market housing developers to serve this segment of the community.

Industry or colleague partners are important because they enable us to share or trade expertise, allowing the Bank to adopt practices that work well or that can mitigate potential issues early, resulting in a stronger CRA program. Accessing the regulatory agencies as partners is also a highly advisable practice as this communication enables us to advance several community development initiatives with innovative and flexible practices while retaining safety and soundness.

The final set of “right partners” is resource providers such as the Federal Home Loan Bank, Department of the Treasury, and other financially resourceful institutions including private foundations. These organizations have the ability to leverage and maximize financial resources with grant contributions or guarantees. Partnerships with these agencies bring resources back into the community, rather than just making use of what is currently available, thus maximizing a bank’s – and the community’s – return on investment. For instance, during 2003, VIB secured over $3.5 million for local housing benefiting low-income families by linking external resources such as the Federal Home Loan Bank’s affordable housing grant program to local projects.

Document, Document, Document

It is not enough to be actively involved in community development projects. You must document those activities for the regulators.

Valley Independent Bank has successfully implemented an effective CRA data collection process. To document CRA-qualifying lending activities, VIB developed a one-page CRA data collection worksheet that captures relevant CRA-related information, and requires attachments for address and income verification, as well as geo-coding results. Through employee training and attention to detail, Valley Independent Bank has perfected the data collection process to ensure accurate reporting. The bank’s regulators have come to rely on the accuracy of these worksheets and the supporting documentation during the exam process.

Similarly, service and donation activities must also be accompanied by a CRA activity log when submitted to the bank's CRA/community development officer. Officers are encouraged to collect income and demographic information related to the activity prior to service delivery or funding commitment, which facilitates data collection and the reliability of information reported.

The Bank's CRA division is responsible for complete file documentation, organization, and verification of all CRA activities. VIB used the Federal Reserve's CRA data entry software through 2003 to track lending performance. However, it recently became necessary to purchase a market system to facilitate analysis of the Bank's expanding service areas.

Documenting and tracking CRA activities is essential for an effective CRA program. Recognizing and quantifying trends is important and allows the CRA division to keep management and the board informed. This is particularly important if negative trends require immediate mitigating action. To that end, the CRA officer prepares monthly, quarterly and annual performance reports comparing performance to prior years and to peer banks. These reports are provided to various management committees and to the board. Consistent and timely communication provides management a very clear picture of the bank's performance and opportunities. There should never be any surprises!

Motivate—If You Build It, They Will Come:
In the movie "Field of Dreams," Ray Kinsella is convinced that if he builds a baseball diamond in a corn field, fans will come to watch the great ones play. So it is with a bank's CRA program – if a successful, meaningful program is built, bank employees will come, and not just to watch.

VIB's employees are dedicated to community development because it has created a successful program that makes a difference in its communities and also recognizes its employees' efforts. During 2003, VIB officers volunteered at 130 community organizations and provided over 3,000 hours of qualified community development services. These services ranged from fund-raising and financial education in schools and housing centers to technical services for nonprofit organizations, including financial audits and loan underwriting services. The marketing department highlights an outstanding officer's CRA commitment in every internal newsletter published. VIB believes that when employees see the results of their efforts and understand that they have the opportunity to make a difference in their own neighborhood, they will be motivated to engage in community development activities.

If You Want to Be The Best – Practice The Best

Through trial and error, Valley Independent Bank has determined that some things work better than others when it comes to community development. Some examples of "best practices" that have proven successful include:

- Senior management and the board of directors adopted a specific CRA and community development component within the bank's strategic plan.
- Human Resources incorporates CRA service responsibilities into all officer job descriptions and provides CRA orientation training to new employees.
- The Compliance Action Team facilitates mandatory bank-wide training on CRA for all employees in the form of computer-based training, videos, and written study materials.
- Lending divisions incorporate quantifiable goals and measurements for lending performance, compensating officers accordingly or conversely, holding them accountable for their performance.
- The marketing department provides external and internal publicity of community development projects and programs, including press releases and publication of an internal newsletter featuring employee CRA activities.

Final Thoughts on the Recipe for Success

Using the right tools, ingredients, and resources will produce a positive outcome for any CRA program. Valley Independent Bank's CRA program is successful because we don't just treat CRA as a regulatory requirement; management and the board have made CRA a priority and facilitated the development of skills and tools for employees to be actively engaged in providing high-quality service. Add in great partners with a shared community vision, a handful of motivated key players, a good measure of effectively leveraged resources, and you have a recipe for success.

Valley Independent Bank's finished product—economically stronger communities, an enhanced bottom line, a positive community image, and employees who are proud of the company they work for.

Justina Gamboa-Arce

Justina Gamboa-Arce is CRA and community development officer for Valley Independent Bank. Her career-related experience includes both public and private sector community development program administration and implementation. She worked as a private planning consultant before joining Valley Independent Bank.

Ms. Gamboa-Arce is a member of a number of local and regional organizations and committees including local chambers, financial advisory committees, and nonprofit boards. Born and raised in rural California, she continues to work on behalf of smaller agricultural communities.

Ms. Gamboa-Arce earned a bachelor of science in urban and regional planning from the California Polytechnic University, Pomona. Her studies focused on rural economic development and affordable housing issues. She is also a graduate of the Federal Reserve Bank of San Francisco’s National Community Development Lending School.

Bob was going to be a tough act to follow, but when the Fed announced the appointment of Janet Yellen as our president, we recognized a new ally. She is a renowned economist, noted for her research in areas that affect low- and moderate- income people and communities including issues such as unemployment, labor markets, and income and wage inequality. As chair of President Clinton’s Council of Economic Advisers, she was involved with welfare reform, and as a Fed Governor she served on the oversight committee monitoring the work of Community Affairs throughout the Fed System.

We feel fortunate that Janet understands the importance of community development. She's made it clear that she is interested in learning more about and playing a role in our various initiatives. In fact, her first public meeting was with a community advocacy organization during which she gained a better understanding of issues facing this District's low- and moderate-income communities.

It’s convenient to have support from the top. As we often tell bankers, senior-level support for community development efforts is critical to any bank’s success in the community. It’s nice for us that we can practice what we preach.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 16, Issue 2 Wenden-Salome Affordable Housing Project

Author(s): Norma J. Saiter, Governing Board Secretary, WSFRC
September 2004

The Wenden-Salome Flood Recovery Commission, Inc. (WSFRC), an Arizona nonprofit organization, was organized February 5, 2001 to care for victims of the October 2000 floods. In the course of working toward their initial goals WSFRC discovered that far more than originally imagined was needed to improve the plight of the communities of Wenden and Salome, unincorporated communities that lie five miles apart in the McMullen Valley of La Paz County.

The entire county of La Paz has a population of fewer than 20,000 with only 4.5% of the county property on the tax rolls. The remainder is privately owned by the federal and state government, the city of Phoenix, and the Colorado River Indian Tribe. Forty-eight percent of La Paz residents live below the poverty level. The percentage is even higher in Wenden. Approximately 640 residents live in 214 homes, over half of which are manufactured or mobile units.

There are very few services in Wenden and Salome. Retail businesses are limited to small auto parts stores, two small grocery stores, a feed store and convenience shopping. The nearest banks are approximately 50 miles away in the towns of Wickenburg and Parker, Arizona. One grocery store houses an ATM; both stores cash checks for farm workers.

Neither Wenden nor Salome has a wastewater treatment facility or public sewer. Water is provided by a public water system and private wells. There is no pharmacy, but there is a staffed clinic in Salome associated with La Paz Regional Hospital in Parker. Each town has an elementary school and a post office. Bicentennial Union High School, with an average enrollment of 150 students, serves both communities.

In the middle of the night on October 21, 2000 relentless rainfall funneled from surrounding mountains into Centennial Wash. This wall of water rushed through the sleeping town of Wenden flooding half of the town and completely destroying twenty homes. The water rushed on to attack residents along Centennial Wash in outlying areas of neighboring Salome. Reports of as many as eight people were carried away by the rushing water. Only one body was found.

On the following Saturday there was a repeat performance when heavy rain again caused more flooding along Centennial Wash. Residents were evacuated, but this time some homes spared by the first flood were damaged or destroyed. A bridge, a road and much repair work that had begun were washed out. The toll on this already poverty stricken area was tremendous.

These floods led to the inception of Wenden-Salome Flood Recovery Commission, Inc. when a group of local citizens banded together for the purpose of aiding victims whose needs remained unmet after the exit of Red Cross, FEMA, SBA, and other agencies. WSFRC asked Dr. George Saiter – a long time community member-- to direct its efforts.

The stated goal of WSFRC was to "promote the healthy recovery and continued development of individuals, households, and community through funding from gifts, donations, grants, loans and volunteers." Based on a survey of needs, WSFRC began its work by:

- providing advocacy for flood victims;
- providing information and assistance to understand and complete forms, applications, and appeals;
- providing advice on repairs to homes and grounds;
- locating additional resources through grants and donations;
- facilitating the provision of relocation sites in or near Wenden;
- providing replacement homes in Wenden and Salome, and
- working to improve the welfare of the local citizens and seasonal farm workers.

The area became a beehive of activity as volunteers from various national church groups including the Christian Reformed Churches of America, Mennonites, Church of the Brethren as well as local churches came to assist flood victims. Singles, couples, and whole families from as far away as New York and Canada donated their time and labor.

Over the next fourteen months WSFRC brought into the community a dollar value of $430,161 in cash, volunteer labor, in-kind donations, loans and grants. These donations and volunteers accomplished the following:

- razed two flood damaged homes;
- transported, renovated, and set up ten manufactured homes in Wenden;
- built one new two-bedroom home;
- renovated and weatherized one home;
- replaced clothing and/or appliances for 25 families;
- elevated one manufactured home above flood level;
- repaired 15 flood damaged homes, and
- opened a local food bank.

Once emergency work was complete, WSFRC realized much remained to be done to improve the economy of Wenden-Salome. At the time of the flood numerous farm workers were sleeping under bridges and trees along the wash. Many were crowded into trailers with inadequate plumbing, which created sanitation problems. According to George Saiter, executive director of WSFRC, the shortage of housing is evidenced by the amount of garbage and human feces in and around Wenden and Salome each harvest season. Everything remotely resembling a dwelling is occupied or overloaded, resulting in a slum housing environment, with unsanitary living conditions and safety hazards. La Paz County is making an effort through their code enforcement officers to control the violations and overcrowding, but as of now there is no place for this large number of workers to live.

Due to the severe shortage of housing and sub-standard existing housing, WSFRC chose as its first goal short-stay rental units. WSFRC purchased ten acres of land and obtained an option to purchase an additional 54 acres from the city of Phoenix for a subdivision development. Plans for this subdivision, Amigos del Valle, (Friends of the Valley), include self-help built homes, owner-occupied pre-built homes, rental homes, and short-stay units for farm workers.

A safe and dependable source of drinking water is needed for Amigos del Valle. WSFRC entered into an agreement with Wenden Domestic Water Improvement District to seek sources of revenue needed to mitigate excessive fluoride and arsenic content of the water. A $33,000 grant was obtained to prepare a pre-engineering study that is now completed. Saiter is working with USDA Rural Development to fund construction to complete the recommendations.

The vision for the next 10-15 years is to fully develop all 64 acres with homes, apartments, and short-term rental units. The road has been uphill for this low-income community and for WSFRC. The will is there but the funds are not. Money is badly needed to move ahead with necessary housing for these deserving workers that are vital to agriculture--the mainstay of McMullen Valley. Funds are also need for staff to assist Saiter in moving ahead with this project.

To learn more about the work of Wenden-Salome Flood Recovery Commission, contact George Saiter, executive director, by phone at 928/859-3858 or via email

Box 1: Farmworker Housing in Wenden-Salome
Following is a summary of information collected by Jay Howe, La Paz County Supervisor, which describes current housing conditions of seasonal farm workers in the Wenden - Salome area of La Paz County, Arizona.

Contract laborers work full time 40-49 hours per week for $6.00 to $8.25 per hour. Piece work wages are estimated to be at the higher end of the "wage scale."

Intensity by Season

The need for farm labor is most intense during the harvest season for all crops. In La Paz County the greatest demand each year is from May 20 through July 20 and again from September 25 to November 15.

Number of Workers

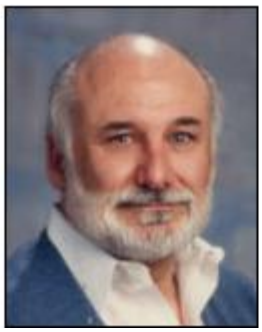
There is no comprehensive source or database that can be used to document the number of contracted migrant and seasonal workers in La Paz County. Information comes from labor contractors. The four major labor contractors providing service to the Wenden-Salome area are California Packing Inc., Sierra Packaging, S & H Farm Labor, and Ralph Collazo.

The following table lists the number of workers supplied by each contractor to the area, the time period they're employed, and the number who live in the area during the planting and harvest seasons. The number of workers living in the area is a conservative representation of the number of reported workers who need housing for an average of 140 days per year. Saiter counted 1800 workers in the fields, including truck drivers, on six different days in 2003.

Contractor	total # of workers (Spring)	# living in area	total # of workers (Fall)	# living in area
California Packing	350	290	350	290
Sierra Packing	200	200	200	200
S & H Farm Labor	150	110	150	110
Collazo Farm Labor	320	320	320	320
Totals	1020	920	1020	920

The occupancy rate of the area’s existing migrant labor housing during harvests is 100 percent. There are two US Department of Labor approved housing facilities in the area that house fewer than 50. There are two small motels that house between 100 and 130 workers during both seasons.

Survey of Housing (all are mobile homes most in poor repair)				
	# of housing units	Total # of bedrooms	# of workers housed	Weekly rental income
Totals	54 plus 2 sheds	75	317	$185.00/wk.



Dr. George Saiter has been CEO and the only employee of Wenden-Salome Flood Recovery Commission, Inc. since its origin February 2001. He has worked most of this time as a volunteer. He has been married to Norma for 28 years. They have three sons, four grandchildren and two great grandchildren. He received a doctorate of psychology from the University of Northern Colorado and spent his professional career in Colorado Springs, Colorado. After retiring in 1991, he and Norma moved to Salome where he has been very active in the community. George served four years on the Salome High School governing board. He currently sits on the La Paz County Community Advisory Board, and the Western Arizona Council of Government Community Action Board. He serves as area director of the Salvation Army and director of the Wenden-Salome Food Pantry.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 16, Issue 2
New Markets Tax Investments Credit Deals

September 2004

The much-discussed New Markets Tax Credit (NMTC) is now starting to facilitate the flow of capital into low-income communities in tangible ways. The three transactions highlighted below are just a few of the ways the NMTC is coming to life in the 12th District.

Market Creek Plaza

The Clearinghouse CDFI recently funded a $15 million dollar permanent loan to the Jacobs Center for Neighborhood Innovation (JCNI) for the new Market Creek Plaza shopping center in the Lincoln Park area of San Diego. Wells Fargo Bank was the tax credit investor on the unique project and has agreed to open a bank branch in the center. The center was conceived, designed, built, and will soon be owned in part by over 2,000 local neighborhood residents. Market Creek Plaza is a 20-acre commercial and cultural center that will serve 88,000 residents in ten surrounding neighborhoods.

The First Security Building is a 12-story historic steel and glass office tower located in downtown Salt Lake City. The $21 million rehabilitation includes a seismic retrofit, new telecommunication systems, and exterior work.

Financing sources include a $13 million construction/permanent loan, developer equity, and a $2.8 million historic and New Markets Tax Credit equity investment. Both the construction/mini-permanent loan and tax credit equity is being provided by Bank of America, with debt financing from Commercial Real Estate Lending Group of Las Vegas, NV. The Fund is managed by National Trust Community Investment Corporation, a subsidiary of the National Trust for Historic Preservation.

The Portland Armory, originally constructed in the 1890's and listed on the National Register of Historic Places, is one of Portland, Oregon's finest and largest 19th century buildings.

By attracting US Bancorp Community Development Bank in St. Louis to invest equity in the project, and combining New Markets Tax Credits with Historic Rehabilitation Tax Credits, Business Energy Tax Credits, and other financing, the Portland Family of Funds was able to successfully structure a financing package. The Armory transaction will provide over 300 new jobs, with a combined payroll of $11 million, and an infusion of $9 million of new equity into Portland's economy.

The New Markets Tax Credit Program: How This Incentive Can Strengthen America's Cities is a report written by Jim Miara and published by CEOs for Cities that describes the program objectives of the New Markets Tax Credit (NMTC) and how it compares with other subsidies. The report details how the program is administered, qualifying investments and how NMTCs are allocated. The report also describes the financial structure of two closed deals and analyzes currently pending deals that could use the help of NMTCs.

For more on the New Markets Tax Credit program, and to download the study, go to the CEOs for Cities website.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 16, Issue 2
Success on the Investment Test

Author(s): Ryan Trammell, Summer Associate, Federal Reserve Bank of San Francisco / University of California, Berkeley, Haas School of Business
September 2004

Many financial institutions have struggled to understand the most important factors considered by examiners in determining a rating for the Community Reinvestment Act (CRA) Investment Test. According to the regulations that implement the CRA, agencies evaluate the investment performance of large institutions using the following criteria:

- the dollar amount of qualified investments;
- the innovativeness or complexity of qualified investments;
- the responsiveness of qualified investments to credit and community development needs; and
- the degree to which the qualified investments are not routinely provided by private investors.

A popular misconception, however, is that examiners focus primarily on the total amount of investments when deriving an Investment Test rating. The Center for Community Development Investments, as part of its effort to help financial institutions better understand and comply with the CRA Investment Test, has sponsored an in-depth study of the extent to which each criterion correlates to an institution's Investment Test rating.

To evaluate the predictive value of each of the aforementioned criteria, regression analysis was used. Quantitative and qualitative variables were created based on information in 2002 large bank performance evaluations from the nine states comprising the Federal Reserve's 12th District. Quantitative variables reflect an institution's level of investments expressed as a percentage of three different indicators of capacity: assets, total investments, and Tier 1 capital. Qualitative variables were used to assess the relationship between Investment Test ratings and: 1) the complexity or innovativeness of an investment; and 2) the responsiveness of a qualified investment to specific community needs.

The results of this analysis suggests that Investment Test ratings are not derived solely from the dollar value of investments and that qualitative considerations are actually more important in determining ratings. The analysis shows that qualitative considerations, such as responsiveness to credit needs and innovation and complexity, are significantly more predictive of Investment Test ratings than investment volumes. These findings not only lend credibility to agency claims that ratings are based on a variety of factors, but also provide financial institutions valuable insight into how to improve their Investment Test performance.

The results of the analysis can be seen in the report *Understanding the Relationship Between Investment Test Examination Criteria and Ratings*, located on the Center for Community Development Investments' webpage. This report summarizes highlights from 2002 performance evaluations, including each institution's volume of investment activity and an analysis of investment vehicles used. A narrative section provides examples of investments which examiners found especially innovative or complex. These summaries will be useful to financial institutions interested in comparing their Investment Test performance with peer banks, and others interested in financial institution performance under the Investment Test.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 16, Issue 2 High-Impact Capital: Using Secondary Capital to Expand Community Development Credit Union Capacity

Author(s): Antonia Bullard, Assistant Director, Vermont Development Credit Union

September 2004

Introduction

Secondary capital is uninsured, subordinated, convertible debt that counts toward the net worth of a community development credit union (CDCU). In this article, Vermont Development Credit Union, the largest user of secondary capital, describes the benefits secondary capital offers CDCUs and community development investors, identifies problem areas, and offers recommendations to transform secondary capital into a real solution for the CDCU growth challenge.

Community Development Credit Unions

As banking becomes more sophisticated and computerized, Americans of low wealth increasingly find themselves squeezed out of the mainstream financial system. They cannot maintain the minimum account balances required to avoid high transaction fees. Their credit scores disqualify them for prime credit. Interest and fee structures exploit the financial setbacks to which their fragile circumstances make them vulnerable. They are increasingly driven into the arms of the burgeoning predatory lending industry. The lack of a level financial playing field, which former US Treasury Secretary Lawrence Summers termed a major civil rights issue,1 keeps millions of families from becoming homeowners, expanding small businesses, obtaining reliable rural transportation, financing higher education, and building assets. CDCUs have a grassroots community development mission to bring fair and affordable financial services to this underserved population. They may be the least well-known and understood of Community Development Financial Institutions (CDFIs). [see box 1.]

Box 1: The Alphabet Soup of CDCUs
Perhaps one reason CDCUs are poorly understood is that they define themselves in at least three different ways. The National Federation of Community Development Credit Unions (NFCDCU) counts 215 member credit unions with a community development mission. The federal regulatory and insurance body for credit unions, the National Credit Union Administration (NCUA) has designated nearly 1,000 credit unions as Low Income Credit Unions (LICUs), based on their having a majority low-income membership (at or below 80% of national median income, regionally adjusted[NCUA Rules and Regulations §701.34]). Federal law allows LICUs to accept non-member deposits and secondary capital. One hundred thirty-two credit unions are certified as CDFIs by the US Treasury CDFI Fund. There is considerable overlap between these groups. The great majority of CDCUs have LICU designation, though the reverse is not true - most credit unions with low-income designation are not CDCUs. All CDCUs are eligible to apply for CDFI certification. Vermont Development Credit Union, along with many others, is a CDCU, an LICU, and a CDFI. This article uses "CDCU" to mean credit unions with a community development mission and a majority low-income membership.

According to the CDFI Data Project,[2] 239 CDCUs in 43 states held a total of $3.1 billion in assets and closed 248,000 loans worth $1.2 billion in 2002. Their commitment to underserved populations is demonstrated by an average loan size of $5,000 and a 60 percent minority membership. The power of CDCUs lies in their capacity to leverage private capital for community development and their direct services to low-wealth people and communities.

Like the nearly 10,000 mainstream credit unions in the United States,[3] CDCUs are regulated depository institutions operating under federal or state charters whose depositors are insured by the National Credit Union Share Insurance Fund. Reflecting their origins in low-income settings and their mission to serve the underserved, CDCUs are often smaller and faster growing than mainstream credit unions and have lower operating margins. A study of 20 CDCUs receiving awards from the US Treasury's CDFI Fund found they averaged 20 percent annual growth,[4] twice the average annual growth rate for all federal credit unions between 1998 and 2003.[5]

Capital and Growth

A key ratio of the financial strength of a depository financial institution is its net worth ratio (NWR), the ratio between equity capital and total assets. This ratio measures a credit union's ability to absorb losses relative to its size. NCUA regulations classify credit unions with a NWR of at least 7 percent as well-capitalized. As of March 31, 2004, the average net worth ratio of all federal credit unions averaged 10.7%.[6]

As cooperatives whose member depositors each hold one share, credit unions cannot raise equity by selling stock as banks can. Instead, their principal source of growth capital is their earnings. Internally funded growth is based on a strict arithmetic: the rate at which total assets can grow without eroding NWR depends on the return on average assets (ROA). The 0.93% average ROA of all federal credit unions in the first quarter of 2004[7] supports an annual asset growth rate of 7.7%. To fund 10 percent annual growth a credit union must average 1.19% ROA. To fund 20 percent growth requires a ROA over two percent.[8]

CDCUs face a twofold growth challenge. First, the unmet need among their target population is so large that they typically grow at higher than average rates. Second, the high cost to serve a customer segment with relatively small balances and transactions tends to squeeze ROA. To meet growing demand, therefore, they must find sources of equity capital beyond their own earnings such as equity grants from philanthropic sources and the CDFI Fund and/or secondary capital.

Secondary Capital

In response to the new community economic development policies of the 1990s and the creation of the Community Development Financial Institutions Fund of the US Treasury, the NCUA in 1996 added regulations allowing Low Income Credit Unions (LICUs, see Box 1) to "offer secondary capital accounts." As Chairman Norman E. D'Amours explained, "Securing this new form of capital from institutional investors will enable LICUs to do more of what they do best: extend credit and provide quality financial services to underserved individuals."[9] Like the EQ2[10] pioneered by CDFIs, secondary capital is long-term subordinated debt that can be counted as equity. Unlike EQ2, secondary capital must comply with specific rules set out in §701.34 of NCUA Rules and Regulations [see Box 2]. While some mainstream credit unions would like to expand the availability of secondary capital to all credit unions,[11] it is currently a tool available only to LICUs.

Box 2: Secondary Capital Rules

- Only permitted for LICUs
- Five year minimum maturity
- Not redeemable prior to maturity
- Not insured
- Subordinated to all other liabilities, including claims of National Credit Union Share Insurance Fund
- May be used to cover operating losses to the extent these exceed reserves and undivided earnings

- May not be pledged by the lender/investor as security for any loan or obligation
- Lender/Investor must be non-natural person (not an individual)
- Lender/investor must execute a disclosure and acknowledgment using specific NCUA language
- Counted as debt for GAAP, but as equity for the purposes of calculating net worth until five years before maturity. In the last five years of its term, counted at 80%, 60%, 40%, 20% and 0% of par value, respectively.

Source: NCUA Rules and Regulations §701.34

Secondary capital offers distinct benefits to CDCUs and community development investors. For CDCUs, it creates equity capacity to meet community needs sooner than would be possible through internal growth. For investors, it leverages limited community development resources. While a $250,000 deposit or loan to a CDFI allows it to lend $250,000, the same amount in secondary capital allows a CDCU with a 12.5% target net worth ratio to take in an additional $1.75 million in deposits and expand its lending capacity by $2 million.[12] Under the CRA Investment Test, a secondary capital investor can receive enhanced consideration for making an investment with such significant quantifiable impact. For foundation investors, secondary capital can be a Program Related Investment (PRI), providing immediate distribution credits that count toward payout requirements, even though the funds will eventually return.[13]

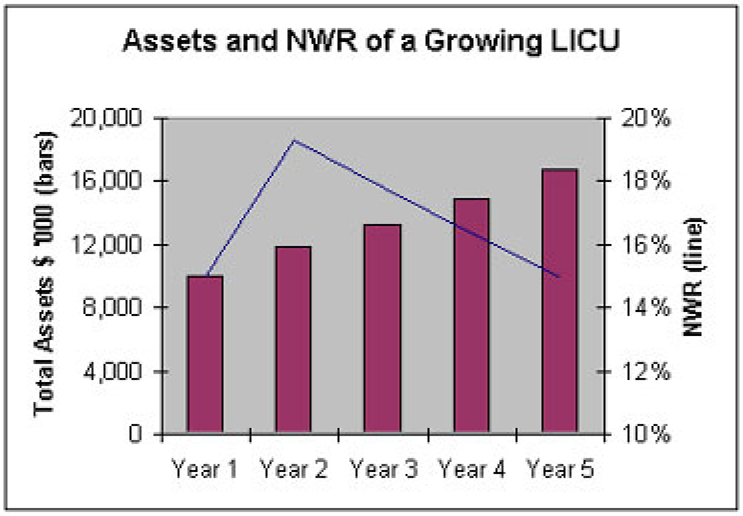
By December 2003, 38 credit unions had secondary capital accounts totaling $12.8 million. Assuming an average 10 percent NWR, this investment creates $128 million in additional CDCU lending capacity. Total secondary capital at individual credit unions ranged from $15,000 to $3,475,000. In 18 CDCUs, secondary capital provided over 25 percent of net worth; in six, it provided over 50 percent.[14] (box 3 shows the ten largest users of secondary capital)

Box 3: Ten Largest Users of Secondary Capital					
CDCU Name	State	Total Assets	Secondary Capital	NWR %	S/C as % of Net Worth
Vermont Development	VT	27,116,811	3,475,000	21.32%	60.1%
Alternatives	NY	45,475,228	2,325,000	9.60%	53.3%
Dakotaland	SD	71,220,950	1,550,000	8.94%	24.3%
Southern Oregon	OR	159,868,448	1,000,000	8.83%	7.1%
Appalachian	KY	12,901,389	700,000	12.18%	44.5%
Hope Community	MS	4,464,701	331,153	10.09%	73.5%
Winthrop	MA	32,580,281	300,000	6.96%	13.2%
Neighborhood Trust	NY	4,675,133	250,000	8.32%	64.3%
Northeast Community	CA	7,857,202	250,000	15.14%	21.0%
Lower East Side People's	NY	12,872,911	250,000	11.44%	17.0%
Source: NCUA call report data 12/31/2003					

Practical Challenges

As currently structured and practiced, secondary capital provides only a temporary solution to the CDCU growth challenge. Consider the following simple model: a CDCU with $10 million in total assets that has set a target NWR of 15% expects to grow at a 15% annual rate into a $16.7 million institution. Most of its expansion will be fueled by deposits, which will grow from $8.5 m to $14.2 m. However, its relatively low profitability (ROA 0.5%) will yield total earnings of only $250,000 over the period. If these earnings are the sole source of additional equity, NWR will fall from 15% to 10.5%. A secondary capital investment of $750,000 will sustain the target 15% NWR.

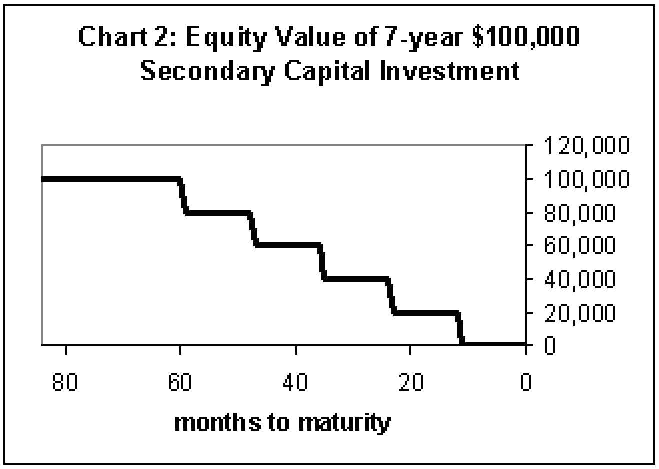
$ '000	Year 1	Year 2	Year 3	Year 4	Year 5
Retained Earnings	1,500	1,550	1,610	1,676	1,750
Secondary Capital	0	750	750	750	750
Deposits	8,500	9,600	10,900	12,400	14,200
Total Assets	10,000	11,900	13,260	14,826	16,700
Net Worth Ratio	15.0%	19.3%	17.8%	16.4%	15.0%



Immediately after receiving the secondary capital investment, the credit union has a temporarily higher NWR, which declines as the deposit base expands to fill the new capital capacity. The size of this “zigzag” can be damped by using multiple, smaller secondary capital investments at intervals. In practice, however, the thinness of the market and the time and expense to negotiate and document secondary capital investments inevitably create a pattern of “lumpy” investments and temporarily higher NWRs.

At the end of the five-year period, the CDCU in the model has grown into its new capital base and returned to its target 15% NWR.

This model works only if the secondary capital investment has a term of at least ten years. This is because NCUA regulations require CDCUs to discount the secondary capital that they count as net worth by 20 percent each year in the last five years before maturity as shown in Chart 2.



Typical secondary capital investments have a maturity of seven to ten years,[15] creating the danger that just when the CDCU needs net worth most, secondary capital contributes less of it. In contrast, bank trust preferred has a 30-year term and some EQ2 has terms of up to 20 years.

The “lumpiness” of secondary capital investments and the NCUA discounting rules reduce the efficiency with which CDCUs use secondary capital. A typical seven-year secondary capital investment may not be fully needed in the first two years and discounted in the last five.

A second problem with secondary capital is its temporary nature. In year five of our model, the CDCU needs to keep the secondary capital it has and obtain additional equity and/or secondary capital to continue its growth. As secondary capital is discounted and/or matures, a CDCU has four possible responses:

(1) Retire the secondary capital
(2) Persuade the investor to extend the term of the investment
(3) Find a new secondary capital investor to replace the secondary capital
(4) Replace the secondary capital with permanent equity.

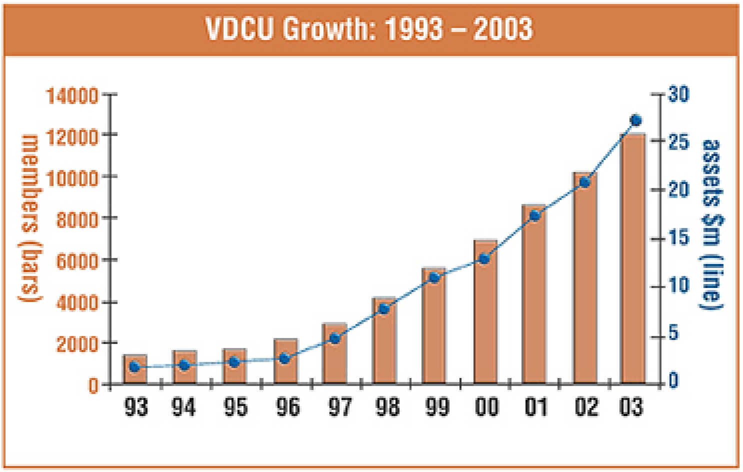
If the CDCU has grown according to plan, response (1) presents two unpalatable choices: accept a lower NWR (with serious consequences if the ratio falls below the 7 percent regulatory threshold), or shrink to a smaller total asset size and an acceptable NWR.

Response (2) may happen in two ways. Some secondary capital investors will agree to extend secondary capital terms on a case-by-case basis. Others build provisions into their original agreements[16] that extend the investment before it starts to be discounted provided the CDCU meets certain criteria for financial soundness and community impact. The first is typically only a short-term answer, and the second a one-time solution. Many investors have limited flexibility since they are themselves intermediaries who must repay their own investors. Others speak of the need to rotate their investments to other CDCUs, which suggests they may not fully understand the role of secondary capital in fueling growth.

Response (3) means recruiting new investors. This is challenging because the program- and CRA-driven investors who provide secondary capital find it less appealing to sustain an organization's current size than fuel new growth.

Response (4) is the most desirable, but the hardest to achieve. Investors who expect equity to replace their secondary capital may overestimate the ability of fast-growing CDCUs to generate permanent equity through retained earnings. Equity grants, the other possible source, are hard to find in sufficiently large amounts.

A possible solution to this dilemma would be for investors to view some secondary capital investments as "probationary equity grants." If a CDCU delivers growth in lending and community impact, the investor converts the secondary capital investment into a permanent equity grant that allows the CDCU to sustain its expanded capacity. If a CDCU does not achieve growth, it can repay the secondary capital investment while maintaining an acceptable NWR.



As currently practiced, secondary capital seems primarily designed to rescue poorly performing institutions. CDCUs that achieve losses beyond their equity base can "keep" secondary capital by converting it to equity. CDCUs that survive a rocky period but do not grow substantially can afford to repay it. For high-performing CDCUs, however, it provides only a temporary solution to a chronic capital shortage that will resurface when the secondary capital must be discounted and repaid.

Secondary Capital at VDCU

Since our founding in 1989, Vermont Development Credit Union (VDCU) has provided $120 million in loans and served 12,000 Vermonters in every county of the state.

As one of the nation's fastest-growing CDCUs,17 with annual average growth of 31 percent in assets and 35 percent in loan portfolio over the last decade, VDCU embraced the concept of secondary capital as a tool for meeting the growing demand from our target population while maintaining our target 12-15 percent NWR. Our first investment of $175,000 came in 1998 from an NFCDCU program funded by the Ford Foundation. We now have the largest total secondary capital investment of any CDCU—$3,475,000, of which

$1,500,000 is in matching investments by the CDFI Fund. Interest rates vary from 3.5% to 5.0% and terms from five to eleven years.

To meet a narrow time window for matching funds and disbursements set by the CDFI Fund, VDCU expanded secondary capital substantially between 2001 and 2003. As a result, we could be said to have had “excess” secondary capital in 2003, when our NWR exceeded 20 percent.[18] Chart 3 shows VDCU’s total historical and projected secondary capital, assuming neither new investment nor extensions of our existing investments. The dotted line shows the secondary capital that counts toward net worth.

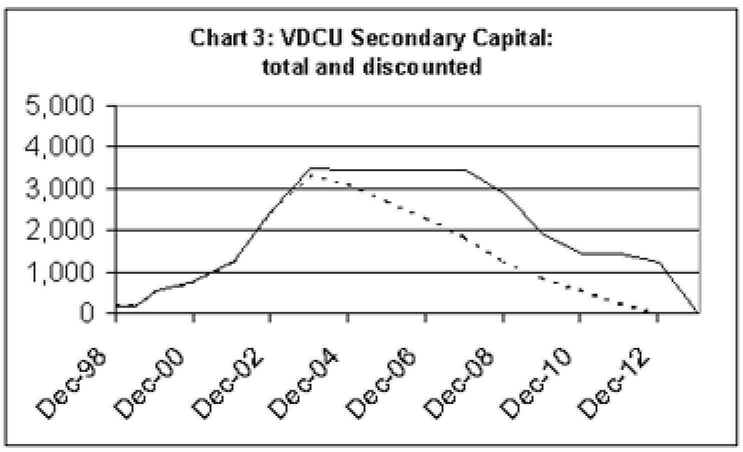
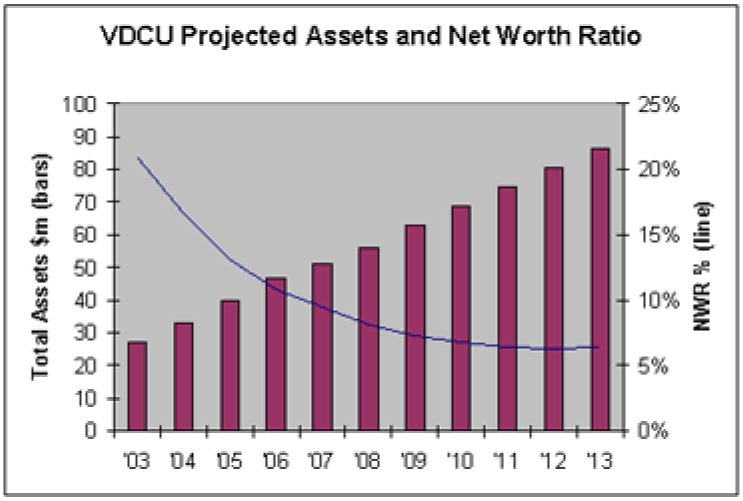


Chart 4 projects total assets and NWR assuming a modest 12 percent annual growth rate and 0.5% ROA. On this assumption, total assets would increase over the next decade from $27 million to $86 million. With no change in secondary capital agreements, the contribution of secondary capital toward net worth declines due to discounting and maturity. On these assumptions, VDCU’s NWR will fall below our 12-15 percent target after 2005. To avoid this, we must achieve some combination of (a) extending, renewing, and replacing existing secondary capital investments, (b) converting secondary capital investments to equity, and (c) obtaining new permanent equity.



Conclusions and Recommendations

VDCU's experience with secondary capital leads us to the following conclusions and recommendations:

1. Secondary capital is a valuable tool by which investors can achieve a leveraged community development impact in CDCUs while retaining their capital and earning a financial return.
2. In part because of the rigidity of NCUA requirements, the pool of secondary capital investors seems unlikely to expand beyond the limited universe of CDFI intermediaries, foundations with PRI programs, CRA-motivated financial institutions, and the CDFI Fund.[19]
3. CDCUs that successfully grow into the new asset size made possible by secondary capital investments will need those investments to be constantly extended, renewed, or replaced by equity.
4. The NCUA discounting formula, whereby secondary capital is disqualified from counting as equity for up to 60 months, limits the value of secondary capital to the recipient without reducing the risk to the investor. NCUA and CDCUs should explore less costly ways to plan for orderly repayment of maturing secondary capital investments.
5. CDCUs and secondary capital investors should consider developing a standardized form of "evergreen secondary capital" that extends its

term on a rolling basis provided recipient CDCUs meet financial and community impact measures.

6. The CDFI Fund and other investors should consider converting secondary capital investments to equity grants if CDCUs achieve growth and impact goals.
7. CDCUs, regulators, and the philanthropic community should research whether less capital-intensive tools, such as standby arrangements and guarantees, can be structured to achieve the same results as secondary capital.

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[1]Remarks to CDFI Awardees in January 2001, reported by Caryl Stewart

[2]The data in this paragraph is taken from "Providing Capital, Building Communities, Creating Impact." CDFI Data Project. 2004

[3]At December 31, 2003, NCUA collected data from 9,488 credit unions www.ncua.gov

[4]Raynor, Jared: "Credit Union CDFI Core Awardee Impact Analysis." NFCDCU, August 2001.

[5]Association of Federal Credit Unions www.afcu.org

[6]www.afcu.org

[7]www.afcu.org

[8]calculations by the author

[9]"NCUA Allows Community Development Credit Unions to Raise Secondary Capital." NCUA. 1996.

[10]EQ2 is short for equity equivalent. See www.communitycapital.org

[11]http://www.cunamutual.com/cmg/newsReleaseDetail/0,1252,9189,00.html

[12]Excluding allowances for liquidity and loan losses

[13]The Grantsmanship Center http://www.tgci.com/magazine/97fall/faq.asp

[14]Data in this paragraph based on call report data at www.ncua.gov and author's analysis.

[15]NFCDCU currently offers terms of 6-7 years. The CDFI Fund matches the original interest rate and term of non-federal secondary capital investments, like those of NFCDCU.
[16]E.g. National Community Capital Association, which allows its 7-year agreement with VDCU to be extended up to 11 years.
[17]"[VDCU] consistently outperformed in all areas of growth." Raynor op. cit.
[18]While not strictly required as equity, this "excess" has not been idle. VDCU has been fully loaned-out throughout the period.
[19]We reached this conclusion after several would-be investors from other segments found themselves unable to comply with rigid NCUA requirements. Some CDCUs, however, believe that if mainstream credit unions are allowed to use secondary capital the market will expand to the benefit of CDCUs.

Antonia Bullard is associate director of Vermont Development Initiatives, the development affiliate of Vermont Development Credit Union (VDCU). VDI and VDCU share a mission to build wealth, community, and opportunity by providing affordable capital and financial services to underserved Vermonters. VDCU has served 12,500 Vermonters in 210 towns and invested $125 million in lending to lower-income Vermonters.

Ms. Bullard's prior career includes experience as an entrepreneur and corporate manager. She studied economics and philosophy at Oxford University and the Massachusetts Institute of Technology. Ms. Bullard can be reached by at 802/865 3404 X104 or via email.