

Perspectives

Magnolia Business Blooms

Cooperative Effort Leads to Commercial Revitalization

From left: Brian Stoker of Compass Bank, Carol Alvarado, director, Magnolia Commercial Revitalization Project, and Buster Freedman, developer of the Wayside Shopping Center, tour the shopping center. Freedman's development helped spark revitalization in the Magnolia area. Compass Bank financed the construction of the center.

Business is thriving in an inner-city Houston neighborhood where banks, retailers, developers, the city and non-profit organizations have encouraged economic development. Working together, each organization contributed to the Magnolia Commercial Revitalization Project, paving the way for businesses to enter the neighborhood. Since the project started in 1991, commercial revitalization has laid the groundwork for a flourishing economy.

The Association for the Advancement of Mexican Americans Community Development Corp. (AAMA CDC) and the East End Area Chamber of Commerce, two nonprofit organizations, began the revitalization project by encouraging commercial and retail business in the Magnolia neighborhood, developing low-income housing and providing social

and educational services in the area. "We worked closely with AAMA CDC and the East End Area Chamber of Commerce to bring banks, city, state and elected officials in on the project," says Carol Alvarado, director of the Magnolia Commercial Revitalization Project. "The banks are very supportive and are usually cosponsors in many of our efforts. Our future goals are to beautify facades of area buildings, to reestablish a tax abatement district, initiate a micro-loan program for small businesses and to bring additional investment to the area."

The revitalization project was designed to improve the overall quality of life for residents by overcoming disinvestment and attracting new business to the area. The Magnolia neighborhood is a predominately low- to moderate-income community. According to the



INSIDE

Second Harvest

Small Business Welcome

Reinventing the SBA

Sources of Census Data

(continued on page 2)

Public & Private Partnership

(continued from page 1)

Department of Housing and Urban Development, annual incomes of 52.6 percent of residents in the area fall below 80 percent of the median income in Houston. Revitalization efforts were funded by private and public contributions. The city of Houston, small businesses, six banks and other private entities combined forces to provide financial support.

The Magnolia project encouraged further revitalization in the area, including creation of a Merchant and Property Owners Association and a building safety inspection program that resulted in destruction of five buildings and several cleanup campaigns. Through a grant from the Cultural Arts Council of Houston,

architects and designers created an urban design plan that will enhance beautification efforts by adding streetscaping and landscaping to the area.

Commercial Development

Revitalization in the Magnolia neighborhood spurred commercial development. For example, a group of developers realized the area's potential and viewed it as an untapped market. When the Magnolia project began, the developers approached the primary owners of a Fiesta food store in the area. The developers proposed construction of the Wayside Shopping Center across from the Fiesta store. The new shopping center featured businesses that met local residents' needs—making it, along with the Fiesta food store, a shopping destination.

The developers obtained a \$2.6 million loan from Compass Bank in March 1993. The Fiesta food store owners were guarantors on the loan and invested \$1 million as equity for the shopping center. The \$3.6 million Wayside Shopping Center was 50 percent preleased at the time the loan was funded. When the shopping center opened in June 1994, occupancy was 100 percent.

"Compass Bank constantly looks for ways to meet the credit needs of the community, and with this extension of credit we saw several avenues where the economic well-being of the community would be enhanced," says Brian Stoker of Compass Bank. "The Wayside Shopping Center loan helped improve an area where apartments were dilapidated and a hazard to local residents. The Wayside Shopping Center created

jobs by providing a place for professional and retail businesses to set up shop. This was a situation where all of the relevant resources in the area were put into place to improve the quality of services in the community."

Small Business Development

The stronger economic base in the Magnolia neighborhood created an attractive market for numerous small businesses. The new shopping center has space for discount retail stores, medical offices, a laundromat and fast food outlets, providing jobs for approximately 95 residents.

"It has been a snowball effect since the first year of the project," says Mary Margaret Hanson of the East End Area Chamber of Commerce. "When anchor retail stores came to the area, many others followed suit. Residents here are hungry for retail stores, so when they land here, the businesses do well."

"When the Magnolia project began, we focused on economic development," says Miguel Garcia, assistant director of planning and development for the city of Houston and the Magnolia project's former director. "We surveyed people about their shopping preferences and tried to determine what kind of businesses could survive there."

One of these businesses, Magnolia Chiropractic Clinic Inc., is located in the Wayside Shopping Center. Dr. Silvio Bruna and his wife, both chiropractors, borrowed \$65,000 from MetroBank to move their practice to the Magnolia area and prepare the shopping center space for their office.

"We decided to move to the Wayside



Don J. Wang, chairman, MetroBank, (R) visits with Dr. Silvio Bruna, who obtained a MetroBank loan that enabled him to move his chiropractic business to the Wayside Shopping Center.

Fast Facts

Shopping Center in 1994 because it is more accessible for patients, and a large number of people pass through the area," says Dr. Bruna. "It was a wise decision to move our practice. We have noticed the difference on the books."

In addition to creating a good environment for the Wayside Shopping Center development, the Magnolia project's efforts promoted planning and development of several industrial redevelopment projects.

Among these projects was the area's Central City Industrial Park, which received acclaim from the National Association of Manufacturers as a model for redevelopment. Baker Hughes, an oil drilling company, invested \$20 million in redevelopment, which created 1,200 jobs.

The Magnolia project has created a strong business climate, making it attractive for banks to provide loans for area businesses. In the first three years of the Magnolia project, MetroBank funded approximately 30 loans totaling more than \$3.3 million to small businesses in the area.

"MetroBank has seen first-hand the benefits of participating in the Magnolia Commercial Revitalization Project and supporting local organizations and business owners," says Don J. Wang, chairman of MetroBank. "Not only have businesses in this area prospered, but the bank has profited from increased loans and deposits with these businesses. The beautification in the area resulting from the project is simply icing on the cake." ▼

The Magnolia Commercial Revitalization Project

Purpose:

To improve quality of life for residents in an inner-city neighborhood by overcoming disinvestment, beautifying the neighborhood and attracting businesses to the area.

Program:

The Magnolia Commercial Revitalization Project is a joint effort of the East End Area Chamber of Commerce and the Association for the Advancement of Mexican Americans Community Development Corp. These groups have worked together to encourage local banks to provide loans for businesses and make contributions to the redevelopment project. The project also has received private contributions and community development block grant funds from the city of Houston.

City of Houston:

Community Development Block Grant	\$65,942
-----------------------------------	----------

Contributions by Financial Institutions

MetroBank	\$11,500
Bank One	\$15,000
Harrisburg Bank	\$ 1,000
NationsBank	\$ 9,000
Bank of America	\$ 2,500
Texas Commerce	\$ 5,000

Other Contributions:

Private Contributions	\$75,059
New Foundations for Neighborhoods (annual commitment)	\$10,000

Business Financing:

Compass Bank	\$2.6 million
--------------	---------------

Financed construction of the Wayside Shopping Center with a 5½-year loan—18-month interim construction loan with interest only, followed by a four-year loan based on 15-year amortization.

MetroBank	\$3.3 million
-----------	---------------

Financed more than 30 loans for small businesses in the area.

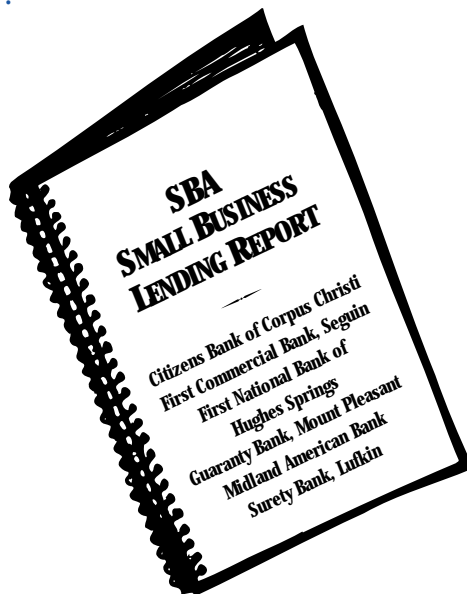
For More Information:

Contact Carol Alvarado, director of the Magnolia Commercial Revitalization Project (713) 926-5464.



Small Business Welcome

*Six Texas Banks
Score High in SBA Study*



The Small Business Administration's recently released study of the small business lending practices of the nation's banks gives six Texas banks the highest possible score.

Robert Berney, chief economic advisor and study director at the SBA, says the study shows small business owners which banks are interested in small business lending.

The SBA also hopes the study increases competition among lenders and spurs lending to small businesses, which will contribute to the U.S. economy. Since last year's SBA study, lending to small businesses has increased by more than \$8 billion.

Citizens Bank of Corpus Christi, First Commercial Bank in Seguin, First National Bank of Hughes Springs, Guaranty Bank in Mount Pleasant, Midland American Bank, and Surety Bank in Lufkin received perfect scores of 50. All six banks have assets of less than \$200 million.

Small business lending is a profit center for many of the Texas banks that earned high scores. President and CEO John Grist says Midland American Bank was recognized in the community as being amenable to small business financing even before scoring a 50 in the SBA study.

"We welcome all credit requests, and we work very hard to make a loan," Grist says. Midland American's participation in small business seminars and word of mouth have been key to letting small business owners know their loan requests have a good chance of acceptance, he says. At the time of the study, which used call report

assets, total bank business loans and total deposits, as well as the dollar value and number of small business loans.

Small banks scored particularly high in the study because small business loans constitute a larger percentage of their loan portfolios. However, large banks outrank smaller banks in the sheer number and value of small business loans.

For R. Jay Phillips, president and chief executive officer of Citizens Bank of Corpus Christi, receiving a 50 in the SBA small business study confirmed that his bank is doing what it should be doing—extending credit to small businesses in the community.

"The main difference between our bank and other banks is that we look for ways to make the loans work, rather than look for reasons to reject a loan request," says Phillips, whose bank had 1,901 small business loans worth about \$54 million at the time the study was conducted.

"It's also important for bankers to be aware of the programs and products, such as those from the SBA and Rural Economic and Community Development, formerly Farmers Home Administration, that can make a loan request a reality," Phillips says. "In the end, small business lending is good for everyone—it's good for the local economy, the business securing the loan and the bank." ▼

data required by federal regulators as of June 1995, Midland American had 1,184 small business loans worth approximately \$55 million.

For the purposes of the study, small business loans were those of less than \$250,000.

Banks' scores were based on the sum value of five variables. The study evaluated the dollar value of small business loans relative to total bank

Reinventing the SBA

A discussion with Philip Lader
Administrator

U.S. Small Business Administration

We asked Lader to discuss how the SBA is evolving to better ensure that small business owners have access to capital to foster their businesses' growth and competitiveness.

Specifically, Perspectives asked how the SBA is increasing the availability of capital to small businesses, how the SBA is reinventing itself to direct resources to meeting small businesses' needs, how the SBA is revising and reducing the paperwork and regulations involved in banks' obtaining guarantees on loans, and how the agency counsels owners so they have the best information available to help their businesses succeed.

At the beginning of his administration, President Bill Clinton challenged the SBA to reach out to underserved sections of the small business community, as well as simplify the processes of securing an SBA guaranteed loan. Fundamental changes we've made include rewriting and streamlining our regulations. Our revisions reduced the pages of regulations by 50 percent and made the regulations easier to understand. We've also participated in the government-wide effort to revise regulations that have an adverse effect on small businesses.

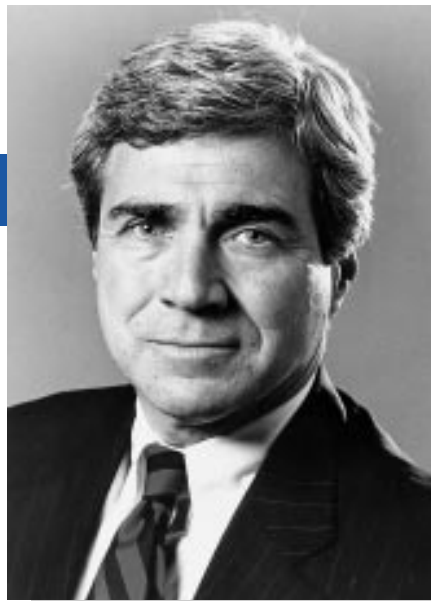
On the financial program side, the

SBA has doubled its lending while reducing its nationwide staffing by 35 percent over the past three years. In this time, we guaranteed more small business loans for more capital than in the previous six years combined. Nearly 119,000 loans worth more than \$22.7 billion were extended. From fiscal year 1994 to fiscal year 1995, SBA-backed loans to minorities increased by 53 percent and loans to women increased by 68 percent.

The cornerstone of our efforts to improve our service to small businesses is the Low Documentation Program (LowDoc), which was implemented in 1994. LowDoc simplified the process of completing loan forms and reduced the red tape involved in obtaining commercial bank loans for less than \$100,000. Before the program, loans under \$100,000 were 30 percent of the SBA's total volume. Now those same loans account for 65 percent of our total volume.

***“In the past three years
we guaranteed
more small business
loans for more capital
than in the previous six
years combined.”***

Another initiative, our Microloan Program, provides a critical link for the development of very small businesses by targeting individuals who would not otherwise be able to obtain standard bank loans. The program increased the availability of very small loans to



prospective small business borrowers—many of whom are low-income individuals.

With this program, the SBA extends funds to nonprofit intermediaries that, in turn, make loans ranging

“Our Microloan Program provides a critical link for the development of very small businesses by targeting individuals who would not otherwise be able to obtain standard bank loans.”

from \$100 to \$25,000 to eligible borrowers. Intermediaries in the Eleventh Federal Reserve District are the Business Resource Center Incubator in Waco, which serves six central Texas counties; the San Antonio Local Development Corp., which serves 12 counties; the Southern Dallas Development Corp., which serves portions of Dallas; and the Women’s Economic Self Sufficiency Team in Albuquerque, which services all of New Mexico.

Our working capital line of credit loan programs, CAPLines, has been redesigned. CAPLines funds may be used to finance seasonal working capital needs; direct costs associated with construction, service and supply contracts; and direct costs associated with commercial and residential building construction without a firm commit-

ment for purchase, among other needs.

We also recently launched a pilot loan program, Fastrak, that allows 18 authorized lenders to approve, service and liquidate loans under \$100,000 using their existing documentation. We guarantee up to 50 percent of a Fastrak loan, and there are no additional forms to fill out or a wait for SBA approval. In the Eleventh Federal Reserve District, NationsBank, Bank One, Bank of America and First Security Bank of New Mexico are authorized Fastrak lenders.

“We recognize that educating and extending counseling to small business owners is vital to their survival.”

In addition, we recognize that educating and extending counseling to small business owners is vital to their survival. To foster such education efforts, we’ve been working closely with our resource partners, including 950 Small Business Development

Centers, the 13,000 members of the Service Corps of Retired Executives, One-Stop Capital Shops (OSCS), and Business Information Centers and the 7,000 lending institutions that process SBA loans nationwide. At present, we have one OSCS in Edinburg, Texas, which serves the Rio Grande Valley.

We’ve also successfully revitalized our venture capital program, the Small Business Investment Co. (SBIC). In the past 18 months, more capital has been raised for the SBIC program than had been raised in the past 15 years. The SBIC program helps private venture capital firms provide risk capital to small start-up and growth companies.

Over the years, the program has provided more than \$12 billion in investments to 77,000 small businesses. One of SBIC’s successes is Intel, which benefited from an early infusion of SBIC capital at a critical stage of its development. Recently, Intel paid more in federal taxes than the SBA’s annual budget.

We believe efforts such as those outlined above strengthen the SBA’s mission.

Through the SBA’s continued partnership with private lenders and other resource partners, we are meeting the challenge of fostering economic development, investing in neighborhoods, creating opportunity and helping people realize the American dream. ▼

DID YOU KNOW...?

Sources of Census Data

The new CRA regulation requires financial institutions to delineate one or more assessment areas. An assessment area is the community within which supervisory agencies will assess an institution's record of CRA performance. These areas are typically drawn using maps of census tracts and block numbering areas (BNAs) and using information such as loan activity and local demographics. A financial institution must be careful not to arbitrarily exclude low- or moderate-income census tracts or BNAs from its assessment area. Census data can help a financial institution better understand its markets.

Many public and university libraries are census depositories with information in their government documents divisions about census data and corresponding maps. Data available include population, race, household composition, education, employment, income and housing.

Information is available for both census tracts and BNAs. Census tracts are delineated for all metropolitan areas and other densely populated counties. BNAs are in nonmetropolitan counties only. Census tracts and BNAs usually have between 2,500 and 8,000 people.

Data are also available from sources other than libraries. The Commerce Department offers national data, and data for each state are available at designated locations. The following list includes data sources for the Eleventh Federal Reserve District—northern Louisiana, southern New Mexico and Texas.

National

- U.S. Department of Commerce
- Bureau of the Census
- Census Customer Services
- Washington, D.C. 20233
- (301) 457-4100
- Internet access:
- www.census.gov

Louisiana

- State of Louisiana
- Division of Administration
- Office of Planning and Budget
- P.O. Box 94095
- Baton Rouge, Louisiana 70804
- (504) 342-7410

Texas

- Texas State Data Center
- Texas A&M University
- Department of Rural Sociology
- Special Services Building
- College Station, Texas 77843
- (409) 845-5115

New Mexico

- Data Bank
- University of New Mexico
- Bureau of Business and Economic Research
- 1919 Las Lomas NE
- Albuquerque, New Mexico 87131
- (505) 277-6626

Portions of this article are excerpts from Community Dividend, a publication produced by the Federal Reserve Bank of Minneapolis. ▼

Dallas Fed Community Reinvestment Conference

New Directions

NAVIGATING A SEA OF CHANGE

OCTOBER 9, 1996

DALLAS, TEXAS

The conference will feature discussions about community development partnerships, the impact of new technologies such as credit scoring, evolving community reinvestment strategies and other topics. You will receive a registration brochure soon. ▼

Perspectives

Federal Reserve Bank of Dallas
Community Affairs Office
P.O. Box 655906
Dallas, Texas 75265-5906
(214) 922-5276
www.dallasfed.org

Gloria Vasquez Brown
Assistant Vice President
Nancy C. Vickrey
Community Affairs Officer
Ariel D. Cisneros
Community Affairs Specialist
Jim V. Foster
Community Affairs Specialist
Bobbie K. Salgado
Houston Branch
Community Affairs Specialist

The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System. Articles may be reprinted on the condition that the source is credited and a copy is provided to the Community Affairs Office.