FEDERAL RESERVE BANK OF DALLAS

BANKING & COMMUNITY

Perspectives

SECOND QUARTER 1999

A Deposit Makes Change

Partnership Yields New Home Improvement Loans

The "home team" and homeowner Leah Maxine Cantley show off the results of one loan. From left are Linda Jordan of Innercity Community Development Corp., Cantley, Henry Nelson of Chase Bank of Texas and Kim Tisdale Whitaker of Allstate Insurance Co.

South Dallas is getting a face-lift, thanks to a new home improvement loan program made possible by Allstate Insurance Co., Innercity Community Development Corp. (ICDC) and Chase Bank of Texas. This partnership, kicked off in October 1998, enables Chase to offer below-market loans of up to $25,000 to homeowners in southern Dallas.

After reviewing the needs of the community, Allstate and ICDC—a non-profit that promotes home ownership, economic development and community education in the South Dallas/Fair Park area—realized that home improvement is necessary to complement new construction under way in the area. Through the Allstate Home Improvement Loan Program—part of the company's education and revitalization initiative, the Neighborhood Partnership Program—Allstate deposits $2.5 million in Chase. The bank pays Allstate a reduced rate of interest on the money, which enables Chase to charge eligible homeowners 6.5 percent interest on their loans, significantly lower than the market rate of 9.5 percent or greater.

The partnership, with about six months under its belt, has provided almost 40 home improvement loans of an average $12,000 to $15,000. Henry Nelson, vice president for Community Development at Chase, is quick to note the program's strong points. "Most affordable home improvement loan programs have income restrictions of less than 80 percent of median," says Nelson.

Continued on page 2

INSIDE

Deposit Makes Change

Continued from page 1

Jordan says it's important to have existing homes up to code to promote new construction and rehabilitation in the community.

"We're fortunate because we can offer a program without a maximum income limit, with no application fees, and loans are unsecured." Customers can apply for a loan through Chase's loan-by-phone, by visiting a branch bank or by contacting ICDC.

ICDC markets the loan program and serves as an intake point, helping applicants through the prequalifying process. Executive Director Linda Jordan says ICDC explains the loan program to potential customers and brings credit-ready applicants to the table.

Chase has partnered with ICDC on several projects, Nelson says, including Spring Plaza Shopping Center in Dallas. ICDC's goal in the loan program is to improve the community, provide safe and affordable housing, and prevent gentrification. Jordan says it's important to have existing homes up to code to promote new construction and rehabilitation in the community. "Chase agreed to make the loans," says Nelson, "partially because the home improvement program is part of ICDC's overall strategy for South Dallas."

According to Kim Tisdale Whitaker, Allstate communication consultant, "By adding a private-sector contribution to the normal mix of nonprofit and financial services, we were able to develop a cutting-edge home improvement loan program." Whitaker believes this is an easy-to-use program that will create positive change in neighborhoods and help stabilize declining areas.

Leah Maxine Cantley's experience is a perfect example of the positive effect this partnership is having on the community. Cantley has worked at St. Mark's School of Texas, in the cafeteria and as a secretary, for more than 25 years. Cantley, who purchased her home in 1972, used her loan to remodel her kitchen and one bathroom and add carpet throughout the house. "The low interest rate and ease in securing the loan definitely caught my attention," says Cantley. She hasn't had a problem with the $62.93-a-month payments and is considering taking out another loan for more improvements after she finishes paying off this one.

Most of the loans made through the program are being used for roof repair, kitchens, bathrooms, windows, foundations, painting, and electrical and general repair. Individual homeowners are responsible for selecting a contractor and overseeing the work.

Dallas is the first Texas city where Allstate has established the home improvement loan program.

Cantley's South Dallas house blends in with neighboring homes like these that have been revitalized through this loan program and others like it.

Fast Facts

Allstate Insurance Co., Innercity Community Development Corp. and Chase Bank of Texas formed a partnership to provide home improvement loans to residents in the southern sector of Dallas.

Allstate deposit with Chase Bank *(Allstate is paid a reduced interest rate on its deposit, enabling Chase to reduce the interest rate to borrowers.)*	$2.5 million
Chase makes home improvement loans of	$1,000 to $25,000
Loan interest rate	6.5 percent
Loan term	12 months for every $1,000 borrowed up to $10,000; up to 10 years for loans of $10,000 to $25,000
Collateral	Unsecured
Eligibility	Property must be located in selected ZIP codes in the southern sector of Dallas.

For more information:
Innercity Community Development Corp.
(214) 426-5657

Cantley's cookin' now that she has an updated kitchen, thanks to the loan program.

Did You Know. . .?

Dallas Fed Web Site Gets a New Face

The Dallas Fed web site has an exciting new look and more information than ever. Among the site's features are expanded community affairs and banking supervision sections and posting of Eleventh District regulatory notices.

New to the site are:

- *Expand Your Insight*—explores timely topics ranging from the global economy and money and banking to free enterprise and technology.
- *Financial Services*—includes Eleventh District ACH, cash and check services.
- *Center for Latin American Economics*—offers comprehensive economic resources for each country.

All your favorite Dallas Fed publications, including *Perspectives*, can be found on the web site. Visit us online at <www.dallasfed.org>.

National Community Development Lending School

Wondering how to attract and underwrite community development business that is consistently profitable? For some answers, plan to attend the Federal Reserve Bank of San Francisco's 1999 National Community Development Lending School (NCDLS) on July 18–22 at the University of California at Berkeley's Clark Kerr campus.

For more information or to register, contact Cynthia Burnett Howard at (415) 974-2986 or E-mail <NCDLS.99@sf.frb.org>.

Marketing Affordable Housing

Builders Use Cost-Saving Strategies

Builders in El Paso are trying several strategies to hold down costs so they can meet the growing demand for affordable housing. Through cooperative marketing with nonprofit organizations, these builders are reducing their marketing costs.

The Greater El Paso Coalition for Affordable Housing—an alliance of non-profit and for-profit homebuilders—held a housing fair last July during the city's celebration of Home Ownership Week. The event focused on educating potential buyers about home ownership opportunities in El Paso.

Dan O'Leary, president of private developer Desert View, says the housing fair was a very productive venue for reaching people who had been told a home was beyond their means. "We were able to tell people that there are homes they can afford."

Participating in coalition efforts is good business, says O'Leary, whose company will build 150 to 160 homes in the $46,950–$58,450 range this year. "Profit margins have to be less if you're going to be successful in developing affordable housing; you have to use nontraditional methods to reach people. A builder can't afford expensive advertising and still keep the homes affordable."

The housing fair attracted more than 7,500 people. Most were young families just starting out, older families that have rented for 20 to 30 years and non-English-speaking, first-generation Americans from Mexico. The 40 exhibitors included 20 nonprofit organizations and 15 for-profit businesses interested in serving the affordable housing market. All the exhibitors had bilingual staff to help ensure all visitors' questions were answered.

One nonprofit participant, Greater El Paso Housing Development Corp., reported more than 200 inquiries, interviews or applications during the fair. Of the applications completed, five buyers qualified immediately, says Demetrio Jimenez, president of the organization. "Through our partnership with the Guadalupe Economic Service Corp., a nonprofit that specializes in credit counseling, we're helping 50 additional applicants with credit counseling and homebuyer education."

In addition to participating in the housing fair, the Housing Development Corp., a spin-off of the local chamber of commerce, is marketing homes to employees of chamber-member companies located in Northwestern Industrial Park. The organization is currently building 30 homes that will sell for $65,000 to $72,000. While the highest growth in affordable housing is on the east side of El Paso, this development is located on the west side, among housing with an average price of $200,000.

Owner Bob Bowling III estimates Tropicana Homes wrote 20 purchase agreements as a result of its participation in the fair. Bowling, whose company is one of El Paso's leading developers, is an advocate for the partnership approach to creating affordable housing. Tropicana has worked with Lower Valley Housing Corp., a nonprofit developer, for the past few years. In 1998 they built 80 affordable homes. "Lower Valley Housing Corp. identified and counseled the qualified buyers for the homes, reducing the market cost of each home by almost $2,000," says Bowling. "We were able to pass these cost savings on to the homebuyer."

Each of the builders agrees that information and education are key to making ownership a reality in the affordable housing market and that cooperative marketing is needed to effectively inform the public. Dan O'Leary says he wishes "there were more marketing efforts—such as the housing fair—that could be done through coalitions."

With positive results stemming from the fair and its educational focus, a second fair has been planned for July 1999. This year a formal system will be used to track whether contacts made at the fair lead to home purchases.

Community leaders kick off El Paso housing fair.

One-Stop Home Shop

Ana Contreras, a single mother of three, was a perfect candidate for help from the Laredo-Webb NeighborWorks HomeOwnership Center. Having no idea what was involved in purchasing a home, she decided to visit the center and get some information.

"The center staff was so helpful," says Contreras. "They explained the entire home-buying process in a manner that really made sense, and I didn't feel intimidated asking questions." With help from counselors at the center, she was able to purchase her own home in February 1999. "For the first time in my life, I am able to provide a nice home for my children, and I bought it myself."

The best way to get today's consumers interested in something is to make it easy, efficient and convenient. Laredo-Webb Neighborhood Housing Services Inc. (NHS) followed this strategy when creating a local NeighborWorks HomeOwnership Center—a one-stop home shop.

A marketing plan that helped identify the community's needs told NHS that the growing Laredo metro area offered only limited affordable-housing resources. To address this situation, NHS opened the home shop, which is patterned on a national model created by Neighborhood Reinvestment Corp. The Laredo center is the only nonprofit organization in the city that offers comprehensive services and training to low-income homebuyers. This one-stop shop provides prospective buyers with expertise and counseling in purchasing, rehabilitating, insuring and maintaining a home.

The center has received more than 500 inquiries, counseled 250 aspiring homeowners and provided mortgage financing for 150 families since opening in April 1998. Over the next five years, NHS expects to provide financing to 750 first-time homebuyers as well as education and training to another 2,500 clients.

"By becoming a significant player in the community, we will be able to increase the number of low-income homebuyers in Laredo," says Angelo Piccirillo, executive director of Laredo-Webb NHS. The center is one of many across the country established to help accomplish the goals of the Campaign for Home Ownership 2002—one of which is to put 110 households a day on the road to becoming homeowners. The campaign, sponsored by Neighborhood Reinvestment Corp., is the largest national initiative of its kind.

Here's what the Laredo home shop offers.

Homebuyer Education

• One-on-one counseling—initial meetings with a counselor.

• Fast-track classes—an eight-hour course that covers the basics of home buying.

• Homebuyer club—a six-week peer support program for families that face a six- to 18-month wait before qualifying for a home.

• Post-home-ownership classes—workshops on such topics as maintenance, budgeting and remodeling.

• Foreclosure intervention—counseling for buyers who used the center's pre-purchase education services should they become delinquent on their mortgage payments.

Property Services

• Prepurchase inspections—inspections to apprise buyers of a home's condition or problem areas.

• Rehabilitation services—home improvements financed before or after the home purchase. Services include inspection, job specification write-up and contractor bidding.

Special Financing Products

• Laredo-Webb NHS/NHSA product—NHS works with Neighborhood Housing Services of America to assist buyers with special-need, first-mortgage loans as well as second- and third-mortgage rehab loans.

• Packaging referral—NHS works with area banks to provide specially targeted loan products with down payment requirements and underwriting flexibility.

• Down payment/closing cost loans—NHS works with the city of Laredo, the Federal Home Loan Bank of Dallas and the Texas Department of Housing and Community Affairs to offer loans to first-time homebuyers whose income is less than 80 percent of the area median.

• Home-improvement loans—NHS offers low-interest home-improvement loans to qualified buyers who cannot get loans from other sources.

• Deferred rehab grants—NHS offers five-year deferred grants of $25,000 for disabled buyers whose income is less than 50 percent of the area median.

• Conversion loans for colonia residents—residents in five Webb County colonias are eligible for rehab, title work and contract-for-deed conversions through NHS.

All prospective buyers must complete homebuyer education classes before they can get the center's help with purchasing a home.

For more information call Laredo-Webb Neighborhood Housing Services, (956) 712-9100.

Commentary

The New Metropolitan Agenda

Bruce Katz, senior fellow and director at the Brookings Institution's Center on Urban and Metropolitan Policy, has done extensive research and writing on urban policy. At Brookings, he is helping shape a new generation of policies that promote strong cities and metropolitan regions. The following questions and answers are drawn from his presentation at a Dallas Fed conference, Common Threads: Regional Approaches to Community Development, *in October 1998.*

Based on your research, what are the more significant challenges facing our cities?

In a country as large and diverse as the United States, it is dangerous to overgeneralize or think of all cities as being substantially alike. In the urban areas of the Northeast and Midwest, we are seeing explosive growth at the outer suburban fringe coupled with decline or slower growth in the central city core. Central cities are steadily losing population and their share of regional jobs. Baltimore and Philadelphia lost more residents in the 1990s than in the 1980s. By contrast, booming Sunbelt cities, particularly those with annexation powers, are enjoying substantial growth, and their suburbs are also developing rapidly.

But urban areas in all three regions do have some troubling similarities. First, the central cities are losing middle-class households. University of North Carolina Professor John Kasarda and his colleagues found that from 1989 to 1996 a total of 7.4 million upper- and middle-income households left the cities for the suburbs. Only 3.5 million upper- and middle-income households made the reverse, suburb-to-city move. Breaking down the data by region, it becomes clear that it is not only the stereotypically distressed cities of the Northeast and Midwest that are affected by this trend. Northeastern and Midwestern cities lost a total of 2.4 million middle- and upper-income households, but cities of the South and West lost twice as many upper- and middle-income households—a total of 5 million—to suburbs.

The result is that poverty is concentrated in central cities across the country. The number of individuals living in neighborhoods of high poverty (where poverty rates are greater than 40 percent) jumped from 4.1 million to 8 million from 1970 to 1990. In Dallas, the number of people living in high-poverty census tracts grew from 70,000 in 1970 to 126,000 in 1990.

Poverty is an extremely expensive problem for cities to deal with because it raises the costs of direct poverty-related services and other services like police and schools. Thus, over time, any city with a high concentration of poverty faces the problem of fiscal fragmentation. Taxes have to rise to cover the costs of poverty, which drives businesses and middle-class families to nearby jurisdictions with lower poverty rates and lower taxes. Cities have to cope with increasing challenges, while their tax bases are moving to the outer suburbs.

While this concentration of need and decentralization of resources is taking place, cities still need to make sure that their basic services—schools, sanitation, police—function at a high level. It adds up to an enormous challenge for Northeastern and Midwestern cities and a growing concern for booming Sunbelt cities.

Why do you consider regional approaches to community development important?

Fundamentally, exclusively inward-looking strategies will not be successful. I stress "exclusively" because cities and neighborhoods do need to focus inward, but they also need to think about connecting people to metropolitan opportunities. Community development organizations and dedicated, entrepreneurial mayors are trying mightily to stabilize distressed neighborhoods, revitalize downtowns and create a climate of safety in which families and businesses can flourish. But these efforts have not been and will not be enough to counter the tide of decentralization.

Jobs are scattered throughout a metropolitan area, and many entry-level jobs are in the outer suburbs. Community groups need to think about how to get people into those jobs—and I mean that literally—by thinking about transportation links between urban neighborhoods and suburban job sites. They also can play a networking role. A lot of research has been done on the importance of social networks in creating employment opportunities. The nonscientific name for that is "word of mouth"—someone finding a job through a friend. Community organizations can develop relationships with employers so that they in effect play the role of the friend who notifies other friends about opportunities.

On the larger scale, community development groups need to have a voice in political discussions about how to react to rapid decentralization. Government policies, at all levels, have contributed to this decentralization and to draining urban vitality. New kinds of policies (or the repeal of old ones) can help turn the situation around and encourage investment back in older communities. Around the country, metropolitan or regional coalitions are bubbling up and trying to create governance arrangements on land use, transportation, infrastructure funding and workforce plans that match the regional economic reality. At the minimum, community institutions should engage in metropolitan coalitions and work to ensure that public transportation and infrastructure resources are allocated fairly. At the state level, community institutions can engage in land-use debates, which sound esoteric but are powerful opportunities to spur reinvestment, as well as discussions about tax policy and local governance arrangements. At the federal level, community institutions can back efforts to enhance metropolitan coordination and metropolitan disbursement of federal funds.

This is a tall order. But as Jeremy Nowak, executive director of the Delaware Valley Community Reinvestment Corp., has said, if community development organizations do not engage, do not recognize and accommodate the regional economic realities, they may find themselves presiding over the steady decline of their neighborhoods.

How would a more regional approach to affordable-housing development affect low- and moderate-income neighborhoods?

First and foremost, a regional approach to affordable housing would greatly expand the housing choices of low-income families. Working people would have access to affordable housing throughout the metropolitan area, which means they would have access to good schools and employment opportunities. The Gatreaux program in the Chicago metropolitan area found that children especially benefit from metropolitan mobility. Young people whose parents were randomly selected to move to the suburbs were more likely to be in college or in jobs with good pay and benefits.

Low- and moderate-income neighborhoods would no longer be forced to harbor a disproportionate amount of the metropolitan poverty population. Concentrated poverty has devastating effects on neighborhoods and the people who live in them. It is associated with illiteracy, chronic unemployment, substance abuse, school dropout, teenage pregnancy and out-of-wedlock births. Neighborhoods that used to be distressed because of a high poverty level may find themselves enjoying a renaissance. Some families will choose to live elsewhere, but others might decide to stay and enjoy the benefits of living in an urban neighborhood without shouldering all the burdens of living with concentrated poverty.

What strategies can cities use to further reinvestment and encourage regional partnerships?

There are three main strategies. First and foremost, cities have to fix the basics. They have to have good schools that educate the children who live in cities now and gain the confidence of middle-class suburban families who might consider moving into the city. They have to keep crime rates low and enhance people's feeling of security in their neighborhoods. They have to bring their tax rates into line with surrounding suburban jurisdictions. They also have to deliver services efficiently and reliably. That's what it will take to retain or attract businesses and middle-class families.

Second, cities have to understand their role in the regional and national economy. That means they have to understand the larger demographic and market trends affecting cities in general and their city in particular. There are some trends emerging that could be positive for cities. For example, the number of households with no children under 18 (empty-nesters, young couples and so on) is steadily rising and will reach about 73 percent of all households by 2010. That is a possible target market for cities, which can offer these people thriving entertainment districts and lifestyle amenities like museums and restaurants, plus the freedom from maintaining a large house and yard. Suburbs cannot compete on these grounds. Cities also have fixed assets in their universities, hospitals and other institutions that cannot simply pick up and move to the suburbs. These institutions, through their hiring and procurement policies, can contribute enormously to urban well-being.

With an understanding of its strength and role, a city can develop replicable competitive strategies to leverage assets and tap neighborhood markets. Cities should help businesses identify, assemble and clean up parcels of vacant land for relocation or expansion. They can also help businesses identify and train workers and access capital.

Third, cities can encourage regional partnerships in part by recognizing that they are dramatically affected by what goes on beyond their borders. Mayors like Wellington Webb in Denver and Richard Daley in Chicago have spearheaded metropolitan mayors' caucuses, which create a forum in which elected officials can discuss their common problems and begin to think of themselves as part of a larger entity. City officials, while

Continued on back page

New Agenda

Continued from page 7

fixing the basics, can begin collaborations on transportation or workforce problems, or reach out to metropolitan businesses. More fundamentally, perhaps, cities need to capitalize on opportunities they already have to engage in regional action.

What business strategies would you suggest banks consider for reinvestment in inner cities and first-ring suburbs?

Banks should recognize the hidden assets of these communities. They have done a very good job of responding to the home ownership market, creating new mortgage products that put home ownership within reach of more families than ever before. But when it comes to other kinds of investments, old perceptions die hard—for businesses as well as banks.

Most banks and businesses look at average income levels for city neighborhoods and assume that these places are not good sites for investment. They overlook two things. One is that low-income people spend more than their reported income, thanks to the underground economy, which is primarily composed of legal but off-the-books employment. A study by Chicago's Shorebank Corp. found that people whose reported income is less than $10,000 a year spend two and a half times that amount—252 percent of reported income. Even people who report earning between $20,000 and $30,000 annually spend 109 percent of their reported income. Overall, people in the United States who earn less than $30,000 a year spend $869 billion annually.

Second, density matters. Low-income neighborhoods are much denser than outer-ring suburbs, which means significantly more purchasing power per acre. The Shorebank study mentioned above compared a low-income Chicago neighborhood, South Shore, with an affluent suburb, Kenilworth. South Shore's median family income is $22,000; Kenilworth's is $124,000. But South Shore packs $69,000 of retail spending power per acre, nearly twice that of Kenilworth's $38,000.

The bottom line is that there is profit to be made in central city neighborhoods and inner suburbs. Banks need to reevaluate the business potential of these places and assess loans for small businesses and entrepreneurial ventures with a more balanced perspective.

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Federal Reserve Bank of Dallas
Community Affairs Office
P.O. Box 655906, Dallas, TX 75265-5906
214-922-5377

Gloria Vasquez Brown
Vice President
gloria.v.brown@dal.frb.org

Nancy C. Vickrey
Assistant Vice President and
Community Affairs Officer
nancy.vickrey@dal.frb.org

Ariel D. Cisneros
Senior Community Affairs Advisor
ariel.cisneros@dal.frb.org

Bobbie K. Salgado
Houston Branch,
Community and Public Affairs Advisor
bobbie.salgado@dal.frb.org

Shelia M. Watson
Community Affairs Advisor
shelia.watson@dal.frb.org

Publications Director: Kay Champagne
Editors: Jennifer Afflerbach, Monica Reeves
Design: Gene Autry

Internet web site: www.dallasfed.org