FEDERAL RESERVE BANK OF DALLAS
BANKING & COMMUNITY
Perspectives
SECOND QUARTER 2000

Housing Partnership Blooms in East Texas

Houses More Affordable Thanks to State Infrastructure Grant

Houses in the mixed-income Green Oaks subdivision average 1,300 square feet, with three bedrooms, two baths, two-car garages, energy-efficient appliances and other amenities.

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An East Texas developer is using a state infrastructure grant to reduce the cost of an affordable housing development in the city of Nash. Steve Harris, who owns H&H Builders, is passing the savings on to eligible homebuyers by selling the lots at a much reduced rate.

Thanks to a $424,000 grant awarded in 1999 to Nash from the Texas Department of Housing and Community Affairs (TDHCA) Housing Infrastructure Fund, H&H Builders and other area construction companies aren't having to absorb costs of installing wastewater systems, streetlights, sidewalks, streets, drainage and fire hydrants.

Because of the savings, Harris and the other builders are able to lower the cost of each house by $6,150.

"Affordability starts with the lot cost," says Harris, who, with his wife, Roxan, bought the 18 acres of woods in 1997 to build an affordable housing subdivision. "If you don't have affordable lots, you are already defeated. Also, it is extremely difficult to find for-profit builders who are interested in building homes in this price range."

H&H Builders is part of an East Texas partnership that includes city and state governments, banks and builders. The partnership is constructing 69 affordable homes in the mixed-income Green Oaks subdivision. The houses range from $60,000 to $85,000, but most are being sold for about $70,000. The Housing

A foundation is ready to be poured for a house in the Green Oaks subdivision. Steve and Roxan Harris, who own H&H Builders, bought these 18 acres of woods in Nash to build an affordable housing subdivision.

Infrastructure Fund requires that 35 of the 69 houses be sold to low- and moderate-income families.

Because H&H didn't have to recover infrastructure costs, the company sold lots to area builders for $5,000 each, less than half the normal price—a major drawing card for the subdivision.

"There are so many communities in East Texas that need affordable housing," says Wayne Dial, a TDHCA field representative. "It makes all the partners in this project very proud to meet the needs of low- and moderate-income families."

In addition to TDHCA, H&H's partners include the city of Nash, North East Texas Housing Finance Corp., USDA Rural Housing Services, Regions Bank, Century Bank, FirstBank and Hibernia National Bank.

H&H will build 22 homes in the subdivision, with area builders Whitaker Homes, Hackelmann Construction, Brownco, J. K. Porter and Shade Construction handling the rest. To date, 28 homes have been completed and 14 sold to low- and moderate-income families. H&H Builders plans to build 12 more houses this year. As the subdivision developer, H&H is responsible for repaying all or a portion of the $424,000 grant if Green Oaks isn't completed within three years.

Regions Bank in Texarkana furnished a $300,000 line of credit to H&H for construction of 22 houses. "We are always looking for community reinvestment opportunities, and when H&H Builders came to us for financing, we knew this was a good loan," says Lloyd Champion, Regions Bank president. "H&H had an excellent plan and had identified a need for affordable housing in Nash. Regions is always excited to work with someone who has a vision similar to ours, which is meeting the needs of our community."

City officials agreed to waive all building permit and tap fees, saving builders a total of $35,535.

A public/private partnership came together to construct 69 affordable homes in the city of Nash.

Homebuyer Assistance Provided

The city received $182,000 from the TDHCA HOME Program to provide down-payment and closing-cost assistance for homeowners. Homebuyers may be eligible for up to $7,500 in zero-interest, 30-year deferred-payment loans.

USDA Rural Housing Services also provided reduced-rate financing at 6.75 percent over 30 years to assist low-income buyers. To date, the agency has financed four homes in the subdivision.

The North East Texas Housing Finance Corp. issued state bonds to provide mortgage assistance to first-time homebuyers. FirstBank, Hibernia, Century Bank and Regions purchased the bonds and are providing 30-year fixed-rate mortgages between 6.15 percent and 6.75 percent to eligible buyers.

Best Feeling in the World

Last June, Christine Manley became one of the first homebuyers in Green Oaks. "Being able to purchase my first home and provide a stable environment for my daughter is the best feeling in the world," Manley says. "My actual monthly mortgage payment of $563 is lower than the rent I was paying for an apartment."

The houses in Green Oaks average 1,300 square feet, with three bedrooms, two baths and two-car garages. The low-maintenance dwellings include energy-efficient appliances, low-flow toilets, gas water heaters, high-efficiency air conditioners, 9- and 10-foot ceilings, French doors, garden tubs with separate showers, brick mailboxes and fireplaces.

The Harrises have bought another 20 acres for an affordable housing subdivision, and the city is seeking a second TDHCA infrastructure grant. "It is rewarding for my wife and me to help individuals who otherwise may not have been able to purchase a home," Harris says. "We have had a lot of challenges in developing this project, but with tenacity and determination, we got over the obstacles and developed a magnificent subdivision that the homeowners of Nash are extremely proud to call home."

Fast Facts

Green Oaks Subdivision, Nash, Texas

Using a Texas Department of Housing and Community Affairs Housing Infrastructure Fund grant from the city of Nash, H&H Builders was able to reduce the cost of the lots in the mixed-income Green Oaks subdivision. The grant allowed the developer to pass on about $6,150 in savings to each eligible homebuyer. The public/private partnership, which also includes the city of Nash, Regions Bank, FirstBank, Hibernia National Bank, Century Bank, USDA Rural Housing Services and North East Texas Housing Finance Corp., is transforming 18 acres of vacant land into a subdivision of 69 affordable houses, of which 35 will be sold to individuals at or below 80 percent of the median income.

Developer/Builder Financing:

TDHCA—Housing Infrastructure Fund Provided grant to city of Nash for infrastructure development of 69 single-family lots with at least 51 percent of the houses sold to low- and moderate-income people	$424,000
City of Nash Waived building permit and tap fees	$ 35,535
Regions Bank Issued interim construction line of credit to H&H Builders at 9 percent interest to build 22 houses	$300,000
Total Developer/Builder Financing	**$759,535**

Home Ownership Financing:

USDA Rural Housing Services Provides 30-year mortgages at 6.75 percent interest for low-income people	
North East Texas Housing Finance Corp. Issued state bonds to provide 30-year fixed-rate mortgages from 6.15 percent to 6.75 percent interest. FirstBank, Hibernia, Century Bank and Regions Bank purchased the bonds and are originating the mortgages.	
City of Nash (TDHCA HOME Program) Offers down-payment and closing-cost assistance	$182,000

For more information:

TDHCA:

Austin Office (512) 475-3800

Mount Pleasant Office (903) 572-0111

City of Nash (903) 838-0751

Banking on Entrepreneurs

Business Training Attracts Lenders

The 30-hour People's Business College provides comprehensive training on building and running a small business.

A Dallas-area nonprofit is taking the visions of entrepreneurs and transforming them into real business plans that are attracting the attention of local lenders. The John C. Ford Program, whose mission is to enhance the knowledge and economic self-sufficiency of low- and moderate-income people, has developed an entrepreneurship training program that teaches participants how to build and run a small business.

The 30-hour People's Business College provides comprehensive training in entrepreneurship at no cost to the enrollee. Participants meet for three hours on 10 Saturdays to learn how to prepare balance sheets, project cash flow, address tax issues and market their product. "Not only do students learn how to run a business, each lecture is on a component of a business plan," says Jacqueline Varma, Ford Program executive director. Participants must complete a business plan to graduate.

Like most of those with start-ups and small businesses, entrepreneurship graduates often lack access to capital. The Ford Program developed a relationship with Chase Bank and began referring graduates needing larger loans—$25,000 to $100,000. However, because many graduates are not in the market for loans this big, the program turned to First Mercantile CEO Roy Salley to address their microloan needs.

"We've been very successful with loans we have made to Ford Program graduates, but we couldn't meet the demand alone," says Salley. Armed with past lending successes, Varma and Salley approached several Dallas-area independent banks about forming a coalition to lend working capital.

The result is Bankers' Working Capital Coalition Inc., a six-bank consortium with $150,000 for loans ranging from $5,000 to $20,000 for program graduates. "If they have the tenacity and commitment to complete the program and prepare a business plan, then hopefully we can help them reach their dream by providing a loan," says Salley, who is coalition chairman. The coalition plans to make its first loans in April.

Joining First Mercantile in the coalition are five other independent banks: Lone Star Bank, Texas Capital Bank, Abrams Centre National Bank, Signature Bank and North Dallas Bank & Trust.

The entrepreneurship program relies on corporate partners to teach participants the mechanics of running a business. The volunteer teachers are drawn from more than 400 accountants, lawyers, bankers and other professionals who have committed to the program. "It really is a collective effort; we wouldn't have a program without it," Varma says.

By partnering with inner-city churches and using their facilities for classes, the program has tapped an existing community network to attract participants and graduate 500 entrepreneurs since the program started in 1996; 200 graduated in 1999. Varma expects the number of graduates to rise to 300–400 a year due to the recent completion of centers that use two-way video conferencing equipment to accommodate additional students.

Program alumni find that support doesn't end at graduation. The Ford Program provides five years of follow-up, offering mentors for guidance. Graduates are provided one-time pro bono legal assistance, which they often use to incorporate their business.

The Ford Program also offers graduates the opportunity to enroll in an advanced business training program. Many select the 16-week On-Site Business Consultant Program, which teams the business owner with a lawyer, accountant, marketing specialist and management analyst who thoroughly review the business and identify improvements that could take it to the next level.

Giving Shape to Ideas

After operating North Texas Aerial Surveys for six months, Enrique Ordonez enrolled in the entrepreneurship program because "I was a rookie and they offered me the training I needed." After graduating he was able to expand his business with a Chase Bank loan for equipment and working capital. Now teamed up with his son, who has enrolled in the entrepreneurship program, Ordonez is thankful for what the Ford Program has helped him accomplish. "The people at the program give shape to your ideas, helping to turn them into reality," he says.

With 92 percent of entrepreneurship graduates still in business and 85 percent

Continued on back page

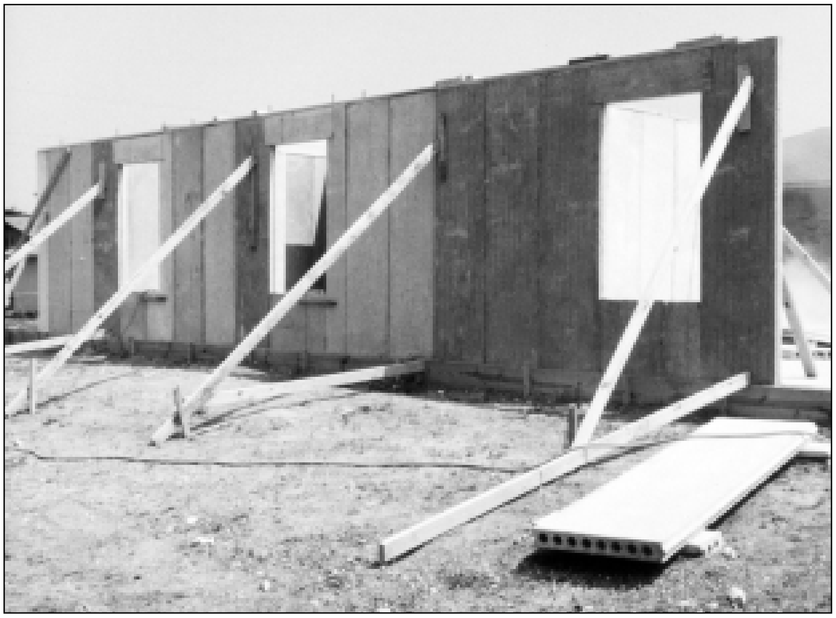
Making Affordable Housing More Affordable

Doing Things Differently Reduces Rising Construction Costs

Rising construction costs have some builders questioning what constitutes "affordable" and whether they can build houses within reach of low- to moderate-income families.

However, homebuilders using special strategies can reduce the rising costs of labor and materials to make housing more affordable.

For example, the Tetra Group of Dallas uses alternative building products to replace more expensive wood frames. Community Development Corporation of Brownsville (CDCB) streamlines its bidding and purchasing procedures to get the most efficiency out of the preconstruction phase.



Fibrecrete panels replace more costly, traditional wood frames.

The availability of affordable homes is becoming a problem, says Hugh Robinson, Tetra president and CEO. "A person needs only to analyze the past growth and future trends in housing construction costs and compare them with the median household income."

What is considered an affordable home in today's market? Jack C. Harris, research economist with the Real Estate Center at Texas A&M University, says his research shows that the typical first-time homebuyer in Texas has a household income of about $26,600. Using current interest rates and FHA financing, he estimates that a household at this income level can afford a home priced at $70,500, as long as there is no additional debt. A car payment or other debt might reduce the amount of mortgage debt the family could afford.

Closing the Gap

To bring material and labor costs in line with homebuyers' budgets, Tetra uses panels of Fibrecrete, an alternative building product made with cement, sand, water and a fiber such as wood chips, rice husks, jute and other fibers available locally. Fibrecrete panels replace traditional wood frames, which are more costly and require greater skill to cut and engineer on site.

Fibrecrete is molded into 2-by-8-foot interlocking panels that are cured for 72 hours before use. Fire- and termite-proof, the panels are easily cut to accommodate electrical wiring and plumbing. "In 25 days, we can provide a completed house at less than $30 a square foot and at the same time provide meaningful jobs for local people," Robinson says.

The CDCB, whose housing initiatives date to 1973, builds about 130 homes a year. Its bidding and construction strategies have reduced costs to about $30–$33 per square foot, says executive director Don Currie.

The organization seeks separate material and labor bids from several suppliers, buys its own materials in bulk—eliminating markup costs—and purchases 100 to 200 lots at a time. Builders bid only on labor. And because the CDCB is a nonprofit, it is exempt from state sales tax. Currie says his techniques result in lower labor and material costs.

The Tetra Group and CDCB approaches are two examples of efforts that for-profit and nonprofit developers are making to reduce the cost of building affordable homes. Low- and moderate-income families are also turning to manufactured housing as an alternative. The price for such housing averages about $29 per square foot nationwide, according to the Texas Manufactured Housing Association.

In Texas, manufactured housing comprises one out of every three units purchased, the association says. The Manufactured Housing Institute credits the affordability to factory efficiency. "The controlled environment and assembly-line techniques remove many of the problems of the site-built sector, such as poor weather, theft, vandalism and damage to building products stored on-site," an institute spokesperson says.

For more information:
Community Development Corporation of Brownsville, (956) 541-4955
The Tetra Group, (214) 744-0420
Texas Manufactured Housing Association, (512) 459-1221

Reviewing Economic Development Needs

Small Business Financing and Infrastructure Are Still Issues in the Eleventh District

Sonia Armstrong Brown has over 20 years' experience in the financial industry. Before founding Community Development Resources in 1998, she was senior vice president and director of the Community Investment Department of the Federal Home Loan Bank of Dallas.

Periodically reviewing small business and economic development needs can help determine if current efforts are effective. Community Development Resources (CDR) assessed the needs of five states, including the Eleventh Federal Reserve District states of Louisiana, New Mexico and Texas. The 1999 study examined rural and urban communities, focusing primarily on small business, industrial development and local infrastructure. Housing issues were also discussed.

Focus groups were conducted in El Paso, Houston and Weslaco, Texas; New Orleans and Baton Rouge, Louisiana; and Albuquerque, New Mexico. The groups included representatives from financial institutions, businesses, nonprofit organizations, universities, and city and state agencies, as well as elected officials. Supplementing these were interviews with lenders, banking regulatory agencies, nonprofits and small business development centers.

The study also reviewed reports and plans prepared by the U.S. Department of Agriculture, state agencies and economic development districts. Development plans reviewed included the Texas Strategic Economic Development Plan 1998–2008, as well as reports from the South Plains Association of Governments in Lubbock; the Lower Rio Grande Valley Development Council, McAllen; the Gulf Coast State Planning Region, Houston; Central and Southeastern New Mexico Economic Development districts; North Delta Regional Planning and Development District, Monroe, Louisiana; and Louisiana Economic Development Council.

Small loans for small businesses are the study's most frequently cited credit need.

The CDR study found that although Texas, New Mexico and Louisiana have diverse economies, their small-business and affordable-housing financing needs are similar. The three states also have common infrastructure needs, with limited water resources and an untrained labor force the most often identified constraints to future development.

Small Business

Small loans for small businesses are the study's most frequently cited credit need. Focus group participants in El Paso, Houston, New Mexico and Louisiana identified the need for business loans of $25,000 or less. Small businesses also need working-capital lines of credit. For example, one group noted that small businesses and nonprofit health and social service providers that rely on government contracts need lines of credit to manage uneven cash flows caused by payment schedules. The focus groups also identified the need for venture capital funds or other sources of small business equity capital.

The 1998 Economic Development Plan for the Gulf Coast Region notes that bank financing for businesses located in urban areas is apparently not only available but also highly competitive. The plan also states that fixed-rate financing for terms of 10 to 20 years is not uncommon. However, Houston focus group participants noted the lack of 20- and 30-year fixed-rate financing for commercial and multifamily real estate projects, particularly in low- to moderate-income areas. In their opinion, some lenders require increased equity in these areas, even when appraised values meet collateral requirements. The group attributed this to lender concern over the future market value of properties in lower income areas and said this practice may cause the city to provide more equity than necessary when it participates in an economic development loan.

The focus groups repeatedly pointed to borrowers' lack of adequate credit history and equity as primary deterrents to small business development. Training programs for small business owners and public financing enhancements could help reduce lenders' credit risk. In Louisiana, financial institution representatives suggested a statewide loan loss reserve program similar to the Texas Capital Access Fund, in which lenders, small businesses and the state contribute to a fund that protects lenders in the event of loan defaults.

Banking Services

Economic development plans for the Texas Gulf Coast region and the North Delta area of Louisiana note that non-bank lenders are increasingly financing business expansions, inventory and relocations. New Mexico focus group participants expressed concern that bank mergers have resulted in smaller local staffs and lending decisions being moved to regional offices, where there is little understanding of local issues.

Housing

El Paso focus group participants emphasized that the greatest need along the border is for affordable housing. Barriers to developing such housing are created by high land costs and the lack of a secondary market for nonconforming mortgages.

Financing for the preservation of multifamily affordable housing is also needed. During the next four years, expiring HUD Section 8 housing contracts may result in the loss of more than 31,000 affordable housing units in Texas, 7,500 in New Mexico and 2,500 in Louisiana. Also, the 15-year affordability requirement for property financed with Low Income Housing Tax Credits between 1987 and 1989 begins to expire in 2002. Approximately 10,300 units of affordable housing in Texas were financed with LIHTC during this period, and some of these developments have no or limited requirements to maintain affordability beyond 15 years.

During the next four years expiring HUD Section 8 housing contracts may result in the loss of more than 31,000 affordable housing units in Texas, 7,500 in New Mexico and 2,500 in Louisiana.

Infrastructure

The future availability of water was the most frequently cited infrastructure need in Texas and New Mexico. The Lower Rio Grande Valley 1998 Economic Development Plan calls a severe water shortage the greatest threat to regional growth. A similar problem exists in the Texas Panhandle, the South Plains and along the Texas Gulf Coast. Water is also an issue in New Mexico. The 1997–98 Southeastern New Mexico Economic Development Plan states unequivocally that "the most significant constraint on growth in Southeastern New Mexico is water."

The Louisiana economic development study, as well as Texas and New Mexico studies, notes the need for infrastructure improvements to wastewater systems and roads. The Louisiana study also identifies the need to develop an information-systems infrastructure in order to be truly competitive.

Meeting infrastructure needs will be costly. Estimates range from $1.5 billion for improvements in water and wastewater systems and transportation along the Texas border to $14.2 billion in New Mexico over 1998–2002. The 1997 report by New Mexico's Department of Finance and Administration that estimates the state's infrastructure improvement costs concludes that "clearly our infrastructure needs surpass the amount of funding that is available. Consequently, we need more effective, efficient and innovative methods of financing capital projects."

Federal and state solid waste and water treatment regulations challenge smaller communities and rural areas, notes the New Mexico Southeastern District report. Many communities can't finance infrastructure projects in excess of $100,000, the report says, making it virtually impossible to keep up with regulatory requirements and meet community demands.

The social service facilities in communities with large population growth—such as McAllen and Brownsville—are also being challenged to meet new demand. More libraries, community centers, and fire equipment and stations are needed, in addition to water and wastewater infrastructure.

A final issue affecting future economic growth the study found is the lack of an adequately trained workforce. The Louisiana and Texas border region development plans and focus groups noted that this issue is key to future development.

Summary

The CDR study reviews small-business and affordable-housing credit needs, as well as the infrastructure needs important to sustaining economic development in Texas, New Mexico and Louisiana. Many of the study's findings are not new and are being addressed by civic leaders, government agencies and financial institutions. Despite this, it is clear that efforts to address financing of community and economic development needs must continue.

Infrastructure needs surpass the amount of funding that is available [in New Mexico]. Consequently, we need more effective, efficient and innovative methods of financing capital projects.

Did You Know. . .?

Call for Papers:
Changing Financial Markets and Community Development

The Community Affairs officers of the Federal Reserve System will jointly sponsor a conference on April 5–6, 2001, in Washington, D.C., on the effects of recent changes in financial markets on low- and moderate-income (LMI) communities.

Potential topics include, but are not limited to, the following:

- Changing role of banks and nonbanks in serving LMI communities
- Role of technology in financial institutions and its impact on LMI communities
- Effectiveness of community development programs
- Effect of changing financial markets on wealth creation and neighborhood sustainability

Individuals interested in presenting research should submit a completed paper, detailed abstract or proposal by June 30, 2000, to:

Lynn Elaine Browne
Senior Vice President and
Director of Research
Federal Reserve Bank of Boston
600 Atlantic Ave.
Boston, MA 02106
E-mail: lynn.browne@bos.frb.org
Phone: (617) 973-3091

Banking on Entrepreneurs

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increasing their revenues within 18 months of graduation, Varma points to the community's collective effort and the program's comprehensive nature as keys to its success. Salley says the reason for the program's achievements is simple: "People need help preparing for success, and that is what the John C. Ford Program does."

For more information, contact the John C. Ford Program, Inc. at (214) 871-5065.

National Lending School

The Federal Reserve Banks of St. Louis and San Francisco will sponsor a National Community Development Lending School July 16–20 at Washington University in St. Louis.

For more information or to register, contact Fred Mendez at (415) 974-2722 or e-mail fred.mendez@sf.frb.org.

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Perspectives
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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

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

Toby Cook
Community Affairs Specialist
toby.cook@dal.frb.org

Jackie Hoyer
Houston Branch
Community Affairs Advisor
jackie.hoyer@dal.frb.org

Publications Director: Kay Champagne
Writer: Steve Smith
Editors: Jennifer Afflerbach, Monica Reeves
Design: Gene Autry, Laura J. Bell

Internet web site: www.dallasfed.org

Federal Reserve Bank of Dallas
P.O. Box 655906
Dallas, Texas 75265-5906

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