

Perspectives

Building a Community from The Ground Up

Innovative Development Provides Opportunity for Low-Income Families to Own Homes

One of the greatest needs of low-income families in the Rio Grande Valley—as in many other areas across the Southwest—is affordable housing. Many families simply cannot afford the typical down payment and closing costs needed to buy a home. But now, a first-of-its-kind housing development in Brownsville, Texas, is providing an opportunity for families with limited incomes to buy their own homes with a down payment equal to about two months' rent.

Developed by the Community Development Corp. of Brownsville (CDCB)—a private nonprofit organization serving as the project's general partner—the 48-acre Windwood development will consist of 225 new, single-family homes, 165 of which will be available for purchase by families earning as little as \$11,500 per year.

The project's unique feature is a lease-purchase financing structure that allows qualifying families to put down as little as \$750 for a home and transfers ownership to them within two years after move-in.



The Community Development Corp. of Brownsville's 48-acre Windwood development will provide 225 new, affordable houses for lease-purchase.

"As we began to survey the different segments of the markets we serve, we quickly realized there was a large and growing segment of young working families who did not have enough equity for home ownership," says Don Currie, executive director of CDCB. "The lease-purchase mechanism was developed to overcome that obstacle by allowing prospective homebuyers to create a sort of down-payment savings account, while making payments and building equity in a new home."

"The beauty of the lease-purchase program is that a part of each month's payment during the two-year lease

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period goes into an escrow account that will provide the funds needed for a down payment and closing costs when the purchase period of the program begins," says John Tipton, president of Texas Commerce Mortgage Co., which is providing the financing for the mortgage loans. "That allows families to move into the home they're going to buy, with minimal costs up front."

While the project's goal of providing affordable housing is simple enough, the development of a partnership to achieve that goal was rather complex. In addition to CDCB and Texas Commerce, five other groups are involved in the partnership.

The Greater Brownsville Community Development Corp. (GBCDC)—a multibank CDC—provided funding for the purchase of 18 acres on which the homes will be constructed. The city of

Brownsville, through its HOME program, provided financing for the acquisition of 30 additional acres for the development—funds that will be used again for forgivable second-lien mortgages.

Mercantile Bank, N.A. is providing interim infrastructure development and construction financing. The Federal Home Loan Bank of Dallas is providing a grant for mortgage subsidies. And Fannie Mae will buy the lease-purchase loans from Texas Commerce—the aspect that became the project's linchpin.

"Each participating organization has played a key role in bringing the project to fruition, but from the perspective of the lending institutions, perhaps the biggest factor was Fannie Mae's commitment to purchase the mortgage loans," says Currie.

"That minimized the risk involved and gave the lenders the level of confidence they needed to work with a non-profit organization like ours on such an ambitious project."

"It's obvious from the overwhelming response we've received that this kind of development is sorely needed," says Currie.

"As a multibank, for-profit investment and development corporation, it was definitely important for the members of the Greater Brownsville CDC to fully understand the lease-purchase philosophy and Fannie Mae's role in the project," says Jim Scott, president of Mercantile Bank and chairman of GBCDC.

"But more than that, the key was having the involvement of a qualified nonprofit organization like the Community Development Corp. of Brownsville, which has constructed and sold nearly 150 homes for low-income families over the past year and a half and does a great job of provid-



Home ownership counseling sessions for new homebuyers are part of the Windwood lease-purchase program.

Fast Facts

ing educational and counseling support for homebuyers. That's what will make a success at Windwood."

Construction of the subdivision's infrastructure—which includes roads, sidewalks and underground utilities—is currently under way, and CDCB recently began the prequalification process for prospective homeowners. In addition to the 225 homes, the development, which is scheduled to start housing construction in September, will include a 4-acre neighborhood park at its center and six commercial lots.

There will be 30 styles of three- and four-bedroom, two-bath model homes. Each will be priced at \$49,500 and will feature brick veneers, central air and heating, and a single-car garage. The response from those wanting to buy in Windwood has been tremendous. This past May, CDCB had to cap the waiting list at 2,000.

"It's obvious from the overwhelming response we've received that this kind of development is sorely needed," says Currie.

CDCB, which has been assisting low-income families with affordable housing for 21 years, realizes it has tapped into a vein that no doubt runs deep.

"If the Windwood development works out the way we anticipate it will, we will be ready to begin putting together another, similar project," says Currie. "In fact, we already have our sights set on a location in another part of the county, and we're looking forward to doing it all again." ▼

Community Development Corporation of Brownsville

Windwood Development Financing Package

Purpose:

Provide opportunities for low- to moderate-income families to buy a home.

Program:

Develop a 48.16-acre site, including roads, underground utilities, sidewalks, a neighborhood park and construct 225 single-family homes that will sell for \$49,500 each.

	Amount	Purpose
Greater Brownsville Community Development Corp. Investment	\$ 279,900	Purchase 18.66 acres
City of Brownsville— HOME Funds Loan	\$ 442,500	Purchase 29.5 acres
Mercantile Bank, N.A. Interim Loan	\$2,720,625	Infrastructure construction
Mercantile Bank, N.A. Interim Loan	\$9,450,000	Housing construction

Windwood Lease-Purchase Financing Package:

Texas Commerce Mortgage Co. will originate 225 lease-purchase mortgage loans. The 30-year loans will be made to the Community Development Corp. of Brownsville (CDCB) and will allow for a one-time assumption by the homeowner. Fannie Mae has made a \$10,687,500 commitment to purchase the first-lien loans from Texas Commerce when the loans are closed with CDCB. After the two-year lease period, the homeowner will assume the mortgage loan. City of Brownsville HOME Funds totaling \$1,057,500 and a \$129,800 grant from the Federal Home Loan Bank of Dallas will be used as deferred, forgivable, second-lien mortgages so that lower income homeowners can more easily qualify.

For More Information:

Community Development Corp. of Brownsville, 1150 E. Adams,
Second Floor, Brownsville, Texas 78520, (210) 541-4955

When Abilene businessman Steve Cates' company began to emerge in 1991, he had two out of the three ingredients he considers most important for operating a successful business: a unique product and a demand for it. The only thing he lacked was the capital necessary to expand.

"I felt like I could make the company successful," says Cates. "But I was concerned I wouldn't have enough



The sales tax enabled Steve Cates (left) to expand his business through a loan from Jim Houston's (right) bank, First National Bank of Abilene.

money if I needed to develop the business in the future."

Less than five years after he began Multicomp Inc.—a manufacturer of erasable labels for videocassette tapes and computer disks—Cates realized his company was growing more quickly than he had anticipated. Wal-Mart had requested a large order, but Multicomp

Common Cents

Half-Cent Sales Tax Helps Individuals, Communities Invest in the Future

could not fill it unless it expanded. Without additional funding, Cates could not hire more employees or buy new equipment.

"I needed a loan if I wanted to fill Wal-Mart's first order," Cates says. "I went to the bank and the city to see if they could help me; it turned out that the economic development sales tax worked perfectly."

Abilene voters approved the sales tax in August 1989, shortly after the Texas Legislature authorized communities to impose a sales tax specifically for economic development. The tax can be used by communities to recruit new businesses, provide infrastructure improvements or assist existing businesses with expansion.

Stephanie Dugan, assistant director of economic development for Abilene, says after the tax is approved by local voters, an Industrial Development Corporation (IDC) must be formed. The IDC—often managed by the city, chamber of commerce or an independent agency—decides what projects qualify for funding. If a project qualifies, the IDC will back a portion, or all, of a loan made by a local bank to the applicant.

Jim Houston, a senior vice president at First National Bank of Abilene, says his bank considers its loan to Multicomp good business. Because the loan was partially guaranteed by the

IDC, the bank was able to assist a young business without compromising its own financial position.

"Without the IDC, we probably wouldn't have been able to make this type of loan," Houston says. "The economic development sales tax benefits banks, their customers and the community."

More than 200 Texas communities have established the tax, according to Alma Puente of the Texas Department of Commerce. Though commonly called the half-cent sales tax, a community can set the levy anywhere between 0.125 and 1 percent, depending on its existing local sales tax and guidelines established by the State Legislature, as outlined in the Development Corporation Act of 1979.

Dugan says since Abilene adopted the tax, many communities have followed suit. She says her city and Multicomp are good examples of how to utilize the tax effectively.

"We were the first city in the state to pass this tax," Dugan says. "I would say it has helped create or retain more than 3,000 jobs. It has made a lot of our citizens very happy."

Cates has hired six employees since receiving the loan.

"The IDC definitely was the key to our loan," says Cates, who was able to fill Wal-Mart's initial order for more than \$100,000 in merchandise for approximately 1,300 stores. "Without it, my business never would have made it."

In addition to assisting individual businesses, the sales tax funds also have financed city projects. In 1989, Raymondville, Texas (pop. 8,880), began exploring the possibility of purchasing land for a new state jail. Less than two years later, the deal was made

R EPORT

As in many small towns in Texas and throughout the United States, the once-thriving courthouse square of downtown Cameron has fallen on hard times. Historic buildings stand empty, abandoned by businesses that have closed their doors or moved to the outskirts of town. But unlike many other small towns, Cameron, a community of 5,500 in Central Texas, may be on the brink of resurgence.

Last year, eight local businesswomen formed FOCUS—Focusing on Cameron’s Ultimate Success—with the goal of promoting revitalization and economic development in Cameron’s downtown business district.

“Our mission is to encourage reinvestment in downtown through new business development, while also preserving historic buildings by refurbishing existing business storefronts,” says Susan Humble, spokesperson for FOCUS, curriculum director at the Cameron Independent School District and a small business owner.

The efforts of the group—a non-profit organization and a chamber of commerce subcommittee—have been spurred by a local bank’s pledge of \$250,000 in low-interest loans.

“I was encouraged by their [FOCUS’] efforts to revitalize downtown,” says William C. Meacham, chairman and CEO of Citizens National Bank of Milam County. “Our bank has been on the courthouse square in Cameron for 95 years, so we have a vested interest in promoting the development of downtown through this loan program.”

The maximum loan for any one project is \$50,000 at 7-percent fixed interest for five years. “A \$50,000 loan

Focus on Downtown Revitalization

Local Businesswomen Promote Development of Downtown Cameron

will most likely not cover the entire cost of a project, but it will serve as encouragement and incentive,” Meacham says. “We wanted to stimulate development, and with \$250,000 broken into loans of \$50,000 or less, we hope to encourage several projects.”

Encouraged by FOCUS and the bank’s commitment, banks in nearby Belton made similar loan offers for redevelopment in their downtown area.

FOCUS’ primary goal, says Humble, is to find a buyer for an empty building who will then renovate it and possibly subdivide it, so that new businesses could move in to share expenses.

About one-third of the buildings in downtown Cameron are vacant.

“We believe the low-interest loans from the bank give us a better chance of getting new businesses to open or relocate downtown,” she says. “An existing business also

From left: William Meacham, Susan Humble and Honey Dowdy hope their efforts focus attention on downtown Cameron’s revitalization.

could use the money to improve its building.”

FOCUS will soon direct its efforts to the Internet. “We have the opportunity to get a homepage on the Internet that we will use to place information about the town, the low-interest loans and business opportunities here. We hope this will spike interest in Cameron,” she says.

In addition to Citizens’ loan offers, FOCUS and Cameron received a \$4,870 grant from Southwestern Bell Telephone Co. FOCUS used part of the grant money to hire a consultant, Honey Dowdy. A rural economic development specialist, Dowdy put FOCUS in contact with the Texas A&M University Agricultural Extension Service and the Texas Rural Development Council, which have both aided FOCUS’ endeavors.

“I’m facilitating their efforts to get statistical information about Cameron, its residents and the county,” says Dowdy. “We need to find out who comes to Cameron, and what is available downtown.” Dowdy says that by



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The 1995 CRA regulation distinguishes, for examination purposes, between small and large banks. Small banks are those that, as of December 31 of either of the prior two calendar years, have total assets of less than \$250 million and are independent or an affiliate of a holding company with total banking and thrift assets of less than \$1 billion. Small banks will be evaluated using a streamlined assessment method.

In the following article, Gloria Vasquez Brown, assistant vice president and community affairs officer, Federal Reserve Bank of Dallas, discusses the assessment criteria that specifically affect small banks. Some of the criteria may also apply to large banks.

Does the streamlined assessment for evaluating small bank CRA performance change the bank's responsibility to reinvest in its community?

The streamlined evaluation does not change the intended result of the CRA, which is to encourage banks to meet the credit needs of their communities, including low- and moderate-income areas and individuals, and to do so within safe and sound lending practices.

The revised regulation is expected, however, to reduce the regulatory burden for small banks. Both small and large banks will no longer have to

- prepare a CRA statement,
- review the CRA statement annually and note that review in board of directors minutes,
- explain the method used in ascertaining their community's credit needs,

CRA and the Small Bank

Revised Regulation Reduces Burden For Small Banks

- maintain documentation supporting marketing efforts or
- maintain documentation demonstrating directors' participation in formulating CRA policies and reviewing bank CRA policies.

Additionally, the regulation relieves small banks from the data collection, reporting and disclosure requirements imposed on large banks.

However, the Home Mortgage Disclosure Act (HMDA) reporting requirements will not change for small HMDA reporting banks.

The 1995 final CRA regulation identifies five assessment criteria for small banks. What are the criteria and what is required to receive at least a "satisfactory" rating?

- The bank must have a reasonable loan-to-deposit ratio (considering seasonal variations) for the bank's size, financial condition and the credit needs of the assessment area. Consideration will also be given to

other lending-related activities, such as loans originated for sale to the secondary market, community development loans or qualified investments.

- The majority of its loans and other lending-related activities must be located in the bank's assessment areas.
- The bank's record of lending to borrowers of different income levels and businesses and farms of different sizes should be reasonable given the demographics of the bank's assessment area.
- The bank must have a reasonable geographic distribution of loans given the bank's assessment area.
- The bank should have a record of taking action, as warranted, in response to written complaints about its CRA performance.

What does a small bank have to do to receive an "outstanding" rating?

To receive an outstanding rating, a small bank must meet each standard for a "satisfactory" rating and exceed some or all of the standards.

Additionally, the bank's performance in making qualified investments (for example, participating in community development corporations and Small Business Investment Corporations) and providing branches and other services that enhance credit availability in its assessment area will also be considered.

What records must small banks keep?

- A small bank must maintain



a CRA public file at its main office that contains

- all written comments with regard to its CRA performance for the current year and two prior calendar years;
- the most recent CRA performance evaluation;
- a list of the bank's branches, their street addresses and geographies;
- a list of branches opened and closed during the current year and two prior years, their street addresses and geographies;
- a list of services generally offered at the bank's branches that includes available loan and deposit products, hours of operation and transaction fees; if the availability of services or the cost of services at a particular branch are materially different, it must be noted in the file;
- a map of each assessment area showing the boundaries of the area and identifying the geographies contained within the area, either on the map or in a separate list;
- the bank's loan-to-deposit ratio for each quarter of the prior calendar year and, at its option, additional data on its loan-to-deposit ratio;
- the HMDA disclosure statement, if applicable; and
- any other information the bank chooses to include.

If the bank has branches, each branch must keep a file that contains the CRA performance evaluation and a list of services provided by the branch. Also, within five calendar days of a request, the bank must make available

“The streamlined evaluation does not change the intended result of the CRA, which is to encourage banks to meet the credit needs of their communities.”

all the information in the public file relating to the assessment area in which the branch is located.

A CRA notice must be maintained in the public lobby of the bank's main office and at each of its branches.

Do you have any suggestions for small banks as they prepare to be examined under the revised regulation?

First, a small bank will want to pay particular attention to its record of meeting the credit needs in low- and moderate-income areas and of low- and moderate-income individuals.

Second, understanding the context in which the bank's performance will be evaluated may be helpful to the bank. Examiners will consider

- economic and demographic characteristics of the assessment area,

- the lending, investment and service opportunities within the assessment area,
- the bank's product offerings and business strategy and its capacity and constraints,
- the bank's past performance and the performance of similarly situated lenders in the community,
- the bank's public file and
- any other information deemed relevant by the supervisory agency.

Third, the assessment area established by the bank should be reviewed to ensure that it includes the census tracts and block numbering areas in which the bank has its main office, branches and deposit-taking automated teller machines, as well as surrounding geographies in which the bank has originated or purchased a substantial portion of its loans.

The assessment area must not reflect illegal discrimination or arbitrarily exclude low- or moderate-income census tracts and block numbering areas, and it should be established using whole census tracts or block numbering areas.

And finally, make sure that the bank is in compliance with all fair lending laws. Evidence of discrimination or other illegal credit practices will adversely affect a bank's CRA rating. ▼

DID YOU KNOW . . . ?

Interagency Statement on Appraisals Issued

On March 10, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency and the Office of Thrift Supervision issued an Interagency Statement on Appraisals for Affordable Housing Loans.

The joint statement makes it clear that the agencies expect lenders to ensure that appraisals for affordable housing consider and discuss the effects of certain types of financial assistance, such as low-income tax credits, rent subsidies and grants. When the benefits of such financial assistance are not appropriately

reflected in a project's appraisal, the project's estimated cash flow is negatively affected, resulting in a lower market value. The appraisal should also discuss the value of the financial assistance that would survive sale or foreclosure and how the assistance affects the project's market value.

The statement also emphasizes that lenders should engage appraisers who are competent in performing appraisals for affordable housing, knowledgeable about the various types of financial assistance programs available and able to identify and consider the effects of such programs on appraised value.

Additional information is available from Dan Kirkland or Gary Krumm in the Banking Supervision Department of the Federal Reserve Bank of Dallas at (800) 333-4460. ▼

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• understanding the community, FOCUS
• can better attract those who can
• ensure Cameron's redevelopment.

• "We are fighting an uphill battle,"
• says Humble of FOCUS' efforts. "But
• we believe it's important to bring
• added life and business to downtown."

• *Another avenue for small towns
• seeking to redevelop and preserve his -
• toric buildings is the state's Texas Main
• Street Program. Through it, cities with
• populations of less than 50,000 hire a
• full-time program manager, and the
• state provides three years of assis -
• tance with developing local initiatives
• and expertise in design, restoration,
• management and marketing of down -
• town business districts. Cities with less
• than 5,000 people can qualify for the
• program by hiring a part-time program
• manager. For more information, contact
• the Texas Historical Commission at
• (512) 463-6092. ▼*

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possible by First Valley Bank, which agreed to purchase \$500,000 in bonds—issued by the city and guaranteed by the economic development sales tax—to pay for the land.

José Lopez, city manager and finance director of Raymondville, says acquisition of the land made Raymondville the logical site for the jail. Chosen as the location in 1992, Raymondville is expected to gain 300 jobs when the 1,100-bed facility opens in October.

"Without the tax, we couldn't have bought the land, which would have meant no jail," Lopez says. "We're hoping the facility will lead to new apartments and restaurants. We want to keep

the jail's employees and visitors from taking their business down the road."

John A. Calkins, chairman of First Valley Bank, says the tax has enabled his community to compete for projects that would normally be out of reach.

"We're a small town and we don't have the money for big projects," Calkins says. "The tax has helped us develop a war chest for economic development."

For more information about the half-cent sales tax, contact the State Comptroller's Office at (512) 463-4289. For more information about the Texas Leverage Fund, a Texas Department of Commerce loan program offering financing to communities that have passed the tax, call (512) 936-0264. ▼

Perspectives

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