

## Constructive Collaboration

How the Teamwork of a Nonprofit Organization and a For-Profit Developer Built Independence Park

Working as a team often renders better results than working independently. A Dallas for-profit housing developer learned the truth of this maxim when it undertook an affordable housing project in the Southeast Dallas neighborhood of Pleasant Grove.

New Dimension Homes planned to build lower priced single-family housing but found that to keep the homes affordable, it would be imperative to forge a partnership with a nonprofit group that had housing development experience. Through meetings with city of Dallas housing officials, New Dimension was paired with the Oak Cliff Development Corp. (OCDC), a nonprofit organization that has been a single-family housing developer since 1987 and serves as the city's In-fill Housing Administrator.

The partnership has proven beneficial to both parties. It enabled New

Dimension to access public money—in the form of city of Dallas HOME funds available through the U.S. Department of Housing and Urban Development (HUD)—for the project, while OCDC can fulfill its objective of increasing affordable housing options in Dallas. Teamwork—plus additional financing commitments from First Interstate Bank, the Enterprise Foundation and Fannie Mae—is making the 112-home Independence Park a reality.

"Independence Park is a monumental development in many ways for us and the city," says Lester Nevels, executive director of the OCDC. "It's the largest single-family affordable housing development in Dallas to date, and it will put families into their own homes and bring revenue to the Pleasant Grove area, which in turn will help the small business owners and others in the neighborhood."

Representatives from the city of Dallas, Oak Cliff Development Corp., New Dimension Homes, First Interstate Bank, Fannie Mae and the Enterprise Foundation survey the progress at Independence Park.

### INSIDE



# P ublic & Private Partnership

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OCDC purchased the land for the houses using \$504,000 in HOME funds, which may be repaid as the houses are sold or absorbed as subsidies to maintain the affordability of the houses. OCDC is also providing home buyer counseling and development assistance.

The houses are for families at 50 to 80 percent of median income and will be priced from \$55,000 to \$73,900.

Homeowners will have monthly mortgage payments of \$500–\$700, which includes principal, interest, taxes and insurance. Down payment and closing costs are between \$2,500 and \$3,000. Qualifying families will be eligible for the city's closing cost assistance program. "Monthly payments are often the same or less than local rentals," Nevels says.

"Through this partnership, we can build homes for people who never thought they could afford a home," says

Mike Anderson, chief executive officer of New Dimension Homes. "We are providing a new choice in affordable housing in Dallas."

The homes are much more than just affordable. The 1,100 to 1,600 square foot, three- and four-bedroom homes with two baths each and garages come with washers and dryers, refrigerators, ceiling fans, maintenance-free brick and veneer exteriors, security systems, landscaped yards and wooden fences.

"With these amenities already in the homes at no extra cost, families do not have to spend extra money to move in," Anderson says. "Everything they need is in the homes already."

New Dimension is a good match for the city of Dallas and OCDC for several reasons, but perhaps the most important is the company's willingness to make sure home buyers get the most

for their money.

"New Dimension was willing to put any savings they made back into the homes in the form of appliances and amenities," says Dawn Blair-Andrews, housing development manager in the city's Housing Department. "That does not happen all the time."

She also points out that the affordability of the lots (\$4,500 each), the fact that the infrastructure was in place, and the HOME funds facilitated the project's success. "Without the HOME funds provided by HUD, this project would not be possible," she says.

At present, 10 homes are complete. Two have been sold, and six are under contract. "As the homes are sold, additional funds can be drawn from the interim construction line of credit to fund the construction of more homes," Nevels says. "We will build 10 to 15 homes in each phase."

To help finance the project, First Interstate Bank provided New Dimension with a \$6.5 million interim construction line of credit that offered no origination fee and an interest rate of prime plus 1. To ensure affordability is maintained, First Interstate will pay all legal fees related to the loan transaction, which includes the master deed of trust, supplemental deed of trust and the note.

"Independence Park is a demonstration of what can be done and how fast a project can come together when all the partners work collectively," says Bonnie Wolferd, vice president of business and community development at First Interstate.

First Interstate will originate the



Dallas Mayor Ron Kirk presents new homeowner Laverne Barker and her daughter, April, with a ceremonial key to the Barker's home in Independence Park.

## Fast Facts

mortgages, and Fannie Mae will purchase them. First Interstate will use tools to help get families into a home, such as the Fannie97 and Fannie Mae Lease–Purchase programs. In fact, 20 percent of the subdivision will be reserved for lease–purchase. Fannie Mae also adjusted the debt-to-income ratio from 33 percent to 40 percent to allow more individuals to qualify.

The Fannie Mae programs are not the only provisions that help make Independence Park affordable. The Enterprise Foundation is offering qualified applicants a second lien, deferred loan of up to 20 percent of the purchase price. It will also administer the Independence Park lease–purchase program.

“The lease–purchase program will help individuals. . . who have minor credit issues that can be resolved or those who do not have enough savings for a down payment,” says Ginger Brown McGuire, Texas state director for the Enterprise Foundation.

As a first-of-its-kind development in Dallas, Independence Park is attracting attention. The partnership recently celebrated its opening with a reception and speech by Dallas Mayor Ron Kirk, who lauded the partnership efforts and underscored how developments such as Independence Park benefit the city.

Mayor Kirk presented the first two families to buy houses in the subdivision with symbolic keys to their new homes. One new homeowner, Kimberly Thomas, was enthusiastic about Independence Park. “I am really excited, and I appreciate everyone’s efforts to help me get my new home.” ▼

### Independence Park Dallas, Texas

#### Program:

Oak Cliff Development Corp. and New Dimension Homes are developing Independence Park, a subdivision of 112 affordable single-family homes in the Pleasant Grove area of Dallas, with financing from First Interstate Bank, the city of Dallas, the Enterprise Foundation and Fannie Mae. The builder, New Dimension Homes, has a \$6.5 million interim construction line of credit from First Interstate Bank. First Interstate will also originate the permanent mortgages.

Two models are on display and there are seven floor plans from which to choose; the homes have a complete amenities package.

Home purchase prices range from \$55,000 to \$73,900.

#### Developer Financing:

OCDC \$504,000

To purchase 112 lots with infrastructure at \$4,500 each, using city of Dallas HOME funds. The HOME funds may be repaid as the homes are sold or absorbed as subsidies to maintain the affordability of the homes.

First Interstate Bank \$6.5 million

Interim construction line of credit to New Dimension Homes at an interest rate of prime plus 1.

#### Homeownership Financing:

First Interstate Bank \$6 million

Will originate 30-year permanent mortgages for 112 homes using Fannie Mae mortgage products that include Fannie97; 20 percent of the subdivision set aside for the Fannie Mae Lease–Purchase program.

#### Enterprise Foundation

Second lien, deferred loan of up to 20 percent of the home’s purchase price, dependent on applicant’s income and a demonstrated need for funds. Also will serve as program manager for lease–purchase program.

#### For More Information:

Oak Cliff Development Corp.  
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## ESOURCE

A few years ago, Robert Orr, president and CEO of First Commercial Bank in Seguin, Texas, came across some rather startling information. He learned that over the course of a year, more than 100 residents of Seguin and surrounding Guadalupe County had traveled to San Antonio for credit assistance. Orr quickly realized that not only was a need for credit counseling not being met locally, but First Commercial was losing potentially valuable customers at a rate of eight a month. So rather than see area residents and potential customers from Guadalupe County seek credit counseling in San Antonio, Orr decided to bring the credit counseling in San Antonio to Guadalupe County.

Today, the program Orr developed with the Consumer Credit Counseling Service in San Antonio helps dozens of Guadalupe County residents overcome credit problems every month. Perhaps more importantly, the joint effort has led to the establishment of additional credit assistance programs for area residents, including one that essentially enables the bank to create its own creditworthy customers from scratch.

Established in 1993, the bank's First Loan program allows loan applicants who have no credit history to attend a training class on budget and finance and, upon completion, earn a certificate that serves as a substitute for a credit report. For potential bank customers who have never had an opportunity to establish credit, the program provides access to a number of opportunities.

"While the program has been especially helpful to younger folks just coming out of high school or college, it also has been beneficial to people who have moved around a lot, because of military

employers for at least six months or be full-time students, earn an income sufficient to support debt and have no derogatory information on a credit bureau report, should one exist.

After completing the course and receiving their certificates, applicants have 90 days to apply for a loan under the program. Loan amounts range from \$500 to \$2,000, and are at the same rates and terms as those available to applicants who have acceptable credit reports.

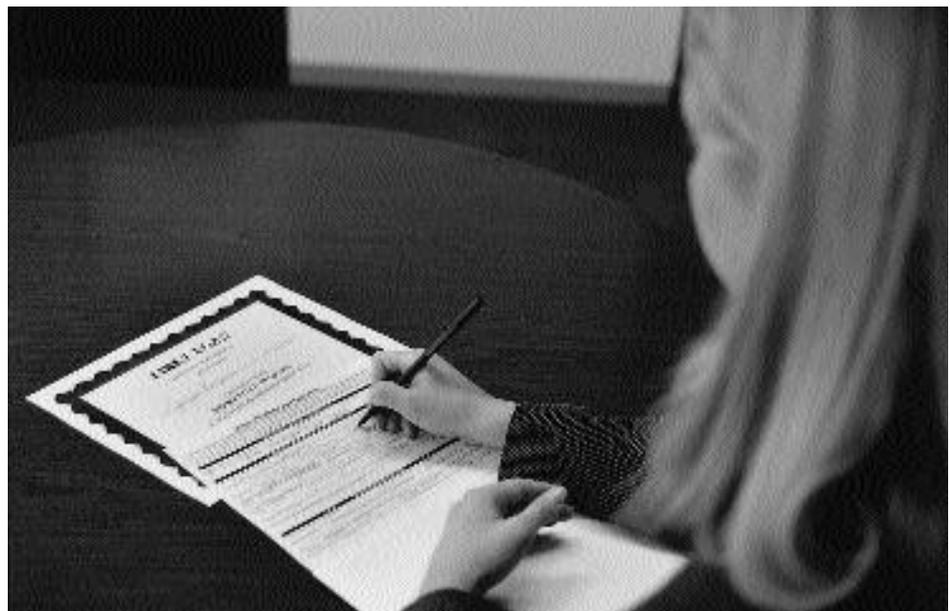
"While one of our goals was certainly to establish business relationships with the people who participate in the program, there's more to it than that," says Orr. "Through this program, we are helping to produce educated credit customers who know how to use credit wisely and efficiently, and that is a benefit to them as well as the banking system as a whole." ▼

## First Loan

### Innovative Credit Counseling Program Paves Way for First Loans

obligations, for example, and to older residents who simply haven't thus far incorporated the use of credit in their lives," says Orr.

Each two and a half hour First Loan training session introduces applicants to the use and impact of credit and covers the types of information financial institutions need to underwrite and process a loan. Applicants must be employed full-time with their current



First Commercial Bank's First Loan program enables loan applicants without credit history to earn a certificate that serves as a substitute for a credit report.

# R EPORT

For much of his 25-year career as an Albuquerque-based home builder, Don Martin viewed for-profit developers and nonprofit community organizations at opposite ends of the housing spectrum—for-profit developers wanting to provide housing for anyone who could afford it, nonprofit organizations wanting to provide housing for those who couldn't.

But when Martin became a senior officer with the board of the National Association of Home Builders (NAHB), he began to see housing from a much broader perspective. Traveling around the country in his official capacity, he saw housing needs that were not being met by the for-profit sector and that the nonprofit sector could not address on its own. That's when he began to fully appreciate the NAHB's Task Force on Unmet Housing Needs, organized in 1993 to examine problems in the area of unmet housing needs and develop solutions.

"If we as a nation are going to truly make an impact on addressing unmet housing needs, there must be positive interaction between for-profit developers and nonprofit organizations," says Martin, vice president and secretary of the NAHB. "Our task force has spent a great deal of time over the past few years working on strengthening for-profit/nonprofit relationships, especially on the business side, because having a common business interest is the best way those partnerships can succeed in providing more affordable housing."

The task force mission is threefold: to promote successful cooperative efforts between for-profit and nonprofit developers, to identify ways to more effectively use government resources

## Building on Common Ground

The National Association of Home Builders' Task Force on Unmet Housing Needs

to meet housing needs, and to examine the roles of for-profit and nonprofit builders in meeting the nation's housing needs.

The task force has concluded that primary among the strengths of for-profit builders are experience in production, cost efficiencies and project management, and better access to traditional financing sources. Nonprofit organizations often have better access to gap financing and lower cost development sites, as well as contacts with prequalified first-time home buyers and community residents with skills in construction.

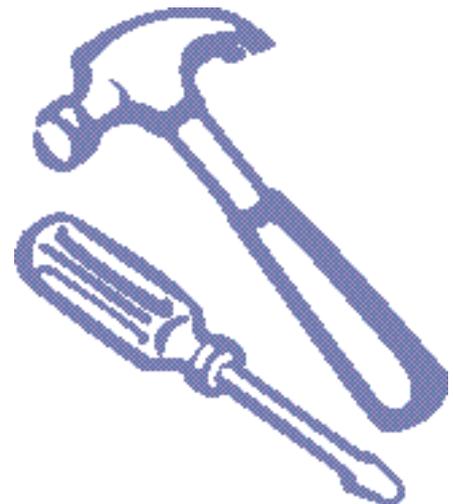
The NAHB task force has also identified the elements that typify successful for-profit/nonprofit partnerships: an understanding of each partner's strengths and capacities, a predetermined fee structure and clear assignment of responsibilities, and an appreciation for each partner's perspective on housing development.

Earlier this year, Federal Reserve Chairman Alan Greenspan praised the NAHB's efforts during a speech at the group's annual conference in Houston.

Greenspan said NAHB members have been "leaders in developing low-cost designs and materials, and in working with government on regulatory and land use reform." He also encouraged the home builders to bring their expertise to the table to help achieve the goal of increased homeownership in America.

"We were gratified by Chairman Greenspan's recognition of the home building industry's efforts to deliver innovative, affordable housing," says Martin. "We look forward to continuing our positive interactions with the Federal Reserve, as well as other government agencies with a role in affordable housing, to further expand homeownership opportunities."

The NAHB has a number of resources for builders interested in learning more about affordable housing business opportunities with nonprofit developers. Its Affordable Housing Network Directory lists builders and organizations active in the affordable housing sector and willing to share their experiences. To obtain a copy, call the NAHB's Mortgage Finance Department at (800) 368-5242, ext. 555. ▼



## Affordable Housing Lending

The Roles of Credit Counseling And Credit Scoring

During the past six years, GE Capital Mortgage Corp. has developed and introduced several products to help lenders responsibly serve the affordable housing market.

In this article, Perspectives asked Gregory T. Barmore, chairman and CEO of GE Capital Mortgage Corp., to discuss the role of credit counseling in affordable housing lending and the use of credit scoring technology in underwriting affordable housing loans.

What outreach techniques would you recommend for home mortgage loan originators who are interested in safely expanding into new markets?

First and foremost, it's important to understand that expanding markets safely takes a lot of work; it's not a one- or two-step process. There are community groups to meet with, underwriting guidelines to be reviewed and meaningful education to be delivered. You also have to be willing to service loans differently and intervene as soon as a delinquency occurs.

Your entire approach has to be different. It also has to be free of the suburban biases that have limited mortgage activity in some geographic areas. If a lender is willing to make these kinds of efforts and make a commitment to building a quality book of business,

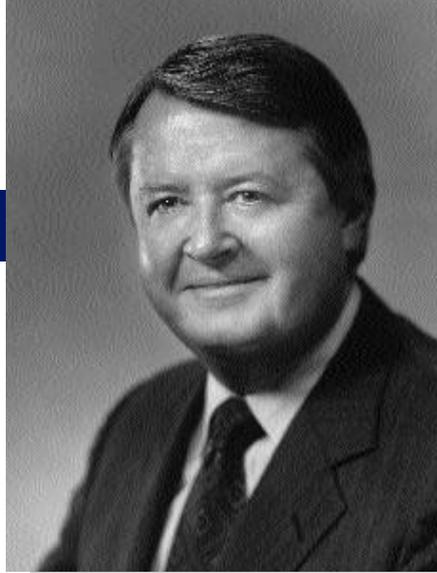
then outreach efforts can result in sustainable, profitable business.

Can education really make a difference?

If the education you provide is meaningful, and not just something you use to increase underwriting flexibility, then it absolutely can make a difference. The goal of everyone involved in affordable housing should be to put borrowers in homes they can afford to stay in long term; that's how you build quality programs that are profitable and sustainable. Educated borrowers

***“The goal of everyone involved in affordable housing should be to put borrowers in homes they can afford to stay in long term.”***

know if they're ready to buy a home; that's a big advantage right at the outset. They also understand how to budget properly, the importance of inspections for older homes, how to avoid homes with hidden costs . . . all of the things that will help make them successful homeowners.



How much can education really compensate for? For example, can it really make a difference for a low-income borrower who suffers an income reduction?

A reduction in income can affect anyone's ability to make a mortgage payment, not just low-income households. The advantage an educated borrower has is that he or she knows to call the servicer right away when a problem occurs. Educated borrowers understand that everyone wins when the mortgage payments continue to be made long term; they know the servicer will work with them to help them stay in the home.

Where high loan-to-value ratios are concerned, you're right that education is not always enough. . . . To further improve the quality of our book, we've added postpurchase counseling to our prepurchase education. We've implemented a process that requires early intervention when a delinquency does occur to give borrowers the best chance possible to get back on their feet and stay in the home.

We've been hearing a lot about scoring technology. What impact will it have on affordable housing?

Banks, mortgage bankers, mortgage insurers and investors have all been involved in affordable housing since the 1980s. In fact, 95-percent loan-to-value ratios date all the way back to 1972. Based on the hundreds of thousands of loans that have already been made, our industry has more

than enough data to build highly predictive mortgage scoring technology specifically for the affordable housing segment. That means that low-income borrowers looking for affordable hous-

***“Our industry has more than enough data to build highly predictive mortgage scoring technology specifically for the affordable housing segment.”***

ing loans should be subjected to scoring technology built on loans made to lower income households.

In general, scoring technology will result in huge improvements in both risk management and market expansion. Today, underwriting is rules-based—in other words, a loan either meets certain risk guidelines or it doesn't.

In the future, mortgage scoring will use data from existing affordable housing loans to provide a math-based underwrite that better predicts how loans will perform. This improvement will not only result in better quality loans; it should also provide lenders with a greater comfort level to enter markets that remain largely untapped today.

Once scoring technology becomes the accepted standard for underwriting loans, what will happen to those people who don't have traditional credit?

While it's possible that mortgage scoring may account for 90 percent of the decisions made at some point, I don't ever foresee a day when scoring is the lone decisionmaker for every loan application.

For example, if loans were scored between 0 and 1,000, and your cutoff for accepting a loan was 650, would you decline a loan that scored 649? I doubt it. . . . Using this example, you would probably have a range of scores below your acceptance cutoff where you would take a second look.

For those people who don't have traditional credit, I believe the industry will continue to use human underwriters to look for other indications of a borrower's ability and willingness to make a mortgage payment. We've been doing that at GE Capital for some time now, and I would see that kind of underwriting continuing once scoring becomes the industry standard. ▼

## Beginner's Guide for Nonprofit Developers

The Dallas Fed has published a guide entitled *Breaking Ground: A Beginner's Guide for Nonprofit Developers*, which offers information to nonprofit organizations that want to become affordable housing developers.

The publication discusses the different types of development roles nonprofit organizations may fulfill, essential components of a successful housing development and how to develop resources to fund affordable housing development, among other topics. Also included is an Eleventh Federal Reserve District listing of local, state



and national sources that can provide grants, debt and equity investments or technical assistance.

Copies of the guide are available free from the Public Affairs Department of the Dallas Fed. To place your order, call (800) 333-4460, ext. 5254, or (214) 922-5254. ▼

## DID YOU KNOW . . . ?

The Community Affairs Office of the Dallas Fed has a variety of resources available to financial institutions, community organizations, government offices and the general public. These resources provide information on the Community Reinvestment Act (CRA) and CRA-related issues such as fair lending, community development corporations (CDCs) and the Home Mortgage Disclosure Act (HMDA). The following is an overview of some of the materials.

**Banking & Community Perspectives—** A newsletter produced by the Dallas Fed Community Affairs Office that features articles highlighting successful community and economic development initiatives in the Eleventh Federal Reserve District.

**The Credit Process: A Guide for Small Business Owners—** A New York Fed publication that offers guidance to small business owners who are seeking outside financing for the first time; it includes a technical assistance resource guide for the Eleventh District.

**Community Development Investments—** A resource guide, produced by the Board of Governors of the Federal Reserve System, that is designed to provide guidance to both state member banks and bank holding companies about the formation of CDCs and other community development investments.

**Directory of Bank Holding Company Community Development Investments—** A directory, produced by the Board of Governors, that lists community development investments information for U.S. bank holding companies.

**Partners—**An Atlanta Fed software program designed to serve as an analytic tool for financial institutions and nonprofit organizations engaged in offering home purchase loans and counseling to low- and moderate-income people.

**Closing the Gap: A Guide to Equal Opportunity Lending—**A Boston Fed publication that provides a comprehensive program for lenders who seek to ensure that all loan applicants are treated fairly. It is also available in a video.

**A Guide to HMDA Reporting: Getting it Right!**—A publication produced by the Federal Financial Institutions Examination Council to assist financial institutions in complying with HMDA and Regulation C.

Publications may be obtained free by contacting the Dallas Fed at (800) 333-4460, ext. 5276, or (214) 922-5276. The *Closing the Gap* video is available for \$9.95 from VIDICOPY at (800) 708-7080. ▼

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