

Perspectives

The One That Didn't Get Away

*Hughes Springs
Catches Catfish Business
By Leveraging Public
And Private Resources*

In 1993, GAF Fisheries Inc. in Hughes Springs, Texas, wanted to build a processing plant and expand its farm to produce catfish for 40 restaurants operated by a related company, Great American Foods. Although Texans eat about 25 percent of the farm-raised catfish consumed in the United States, only 2 percent of the fish are produced in Texas. With a processing plant and larger farm, GAF Fisheries could ensure a steady supply and consistent quality for the David Beard Catfish Restaurants.

"Before we built the plant and fish farm, we were purchasing approximately \$7.5 million of processed catfish from Mississippi each year to supply our restaurants," says Mike Jenkins, president of GAF Fisheries. "With the new farm and plant, we can raise some fish locally, and we can process up to 80,000 pounds of live fish each day."

Hughes Springs, a town of 2,000, was the logical site for the processing plant and expanded farm because GAF Fisheries and Great American Foods are based in the area. GAF



GAF Fisheries, a catfish processing plant in Hughes Springs, Texas.

Fisheries purchased 1,500 acres of land for the plant and fish farm. The city, however, would need to upgrade its wastewater treatment system and sewer and water lines to accommodate GAF's operations.

"The city of Hughes Springs wanted the processing plant in its community, and other cities were competing to have GAF move to their areas," says Clay Meadows, business development director with Northeast Texas Economic Development District (NETEDD), a non-profit corporation established in the 1960s to facilitate economic development and growth in a 16-county region.

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Hughes Springs needed access to state and federal grant money to build the infrastructure, according to Meadows.

NETEDD assisted the city in obtaining approval for two grants for infrastructure improvements, one from the Texas Capital Fund and the other from the Economic Development Administration (EDA).

One of the stipulations of the Texas Capital Fund was that GAF Fisheries have a commitment for financing, which it did not. So Meadows worked with Jenkins to put together a loan proposal that incorporated a business and industrial (B&I) loan guarantee from the U.S. Department of Agriculture (USDA)/Rural Development Program in Temple, Texas.

"The B&I loan guarantee, which

guarantees 80 percent of the bank loan, was crucial to a bank's decision to extend GAF Fisheries a loan because the venture was essentially a startup and the loan guarantee would help a bank offset some of the risk of the project," says Meadows.

Denis Washington, vice president of lending services at Texarkana National Bank, liked the opportunity to use the USDA B&I program, and extended two loans to GAF Fisheries totaling \$3 million. One, for \$2,605,000, was used to refinance the fish farm and construct the processing plant. The other loan, for \$395,000, provided working capital. Great American Foods stockholders also injected \$1.2 million for startup costs.

"The USDA B&I loan guarantee

can guarantee up to \$10 million and is an excellent program" says Washington. "The program made it easier for us to extend the loans."

The bank loan commitments in turn helped cinch the \$750,000 Texas Capital Fund grant and the \$1.3 million EDA grant, used to improve the city's sewer and water infrastructure, says Meadows.

The processing plant and farm have created 82 new jobs in Hughes Springs since the plant opened in March 1996. This puts GAF well on its way to surpassing its commitment to the city to create 100 jobs within three years.

By creating jobs, rural economic development such as this provides an incentive for families to stay in their communities, says Meadows.

With the new water and sewer infrastructure in place, Hughes Springs is promoting development of contract fish farms that will sell fish to the processing plant and create more jobs. In addition to GAF's farm, a 1,000-acre fish farm is under construction in Hughes Springs.

"Without the combination of public grant programs, Texarkana National Bank loans and the loan guarantee, this project would not have happened," says Meadows. "It took each one to bring about the development. Programs such as the EDA grant, Texas Capital Fund and the Rural Development B&I loan guarantee are essential to rural communities' ability to attract and support businesses." ▼



From left: David Beard, chairman, David Beard Catfish, Denis R. Washington, vice president, Texarkana National Bank, and Clay Meadows, Northeast Texas Economic Development District.

Fast Facts

Hughes Springs, a rural Northeast Texas town of 2,000, is home to the state's only commercial catfish processing plant. Development of the plant necessitated improvements in the city's wastewater treatment facility and sewer and water lines. A combination of private funds and a USDA loan guarantee were used for plant construction and public grants were used for infrastructure improvements.

Technical Assistance

Northeast Texas Economic Development District

NETEDD assisted in obtaining approval for the Texas Capital Fund and EDA grants for Hughes Springs. GAF Fisheries and NETEDD also worked with Texarkana National Bank to package the USDA B&I loan-guarantee application.

Infrastructure Grants to City

Texas Capital Fund Infrastructure Program \$750,000

A grant for installation of water lines to the processing plant.

Economic Development Administration \$1.3 million

A grant for wastewater treatment, sewer, water and access improvements to meet the processing plant's needs.

Business Loans

Texarkana National Bank \$3 million

Two loans to GAF Fisheries Inc.: a 10-year, \$2,605,000 loan at an adjustable rate of 1¾ over prime to refinance the fish farm and build the processing plant and a seven-year, \$395,000 loan at the same rate to be used for working capital.

USDA's Rural Development Business and Industrial Loan Guarantee

Guaranteed 80 percent of the Texarkana National Bank loans.

For more information:

Northeast Texas Economic Development District

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DID YOU KNOW...?

Sources of HMDA Data

On July 30, the Federal Financial Institutions Examination Council (FFIEC) announced the availability of 1995 mortgage lending data. The reports reflect lending activity for the more than 9,500 institutions covered by the Home Mortgage Disclosure Act (HMDA).

The public can obtain the data in the following locations and formats:

- Financial institutions subject to the HMDA provide their disclosure statement at the institution's home office and in at least one branch office in each additional metropolitan statistical area (MSA) where it has offices.
- Each MSA has a central depository for HMDA data. Central depositories have HMDA disclosure statements for individual financial institutions reporting in the MSA, as well as a statement that includes aggregate data for all reporting institutions in the MSA. The location of the central depository for a specific MSA may be obtained by contacting the FFIEC at (202) 634-6526 or at www.ffiec.gov/hmda on the Internet.
- The FFIEC makes HMDA data directly available to the public. An order form can be obtained by calling the HMDA Assistance Line at (202) 452-2016.
- Internet users can access HMDA information by geographic area or financial institution. Additionally, the user can determine a financial institution's market share of HMDA reportable loans for a specified area. Access this information from the Internet at rtk.net/www/data/hmda_gen.html.

Additional information regarding the availability of 1995 HMDA data is included in Notice 96-78 from the Federal Reserve Bank of Dallas. For a copy of this notice, contact the Dallas Fed's Public Affairs Department at (214) 922-5254 or (800) 333-4460, ext. 5254. ▼



Commentary

Helping Turn a Vision Into Reality

McAuley Institute believes that housing should be a core element of community-based development activities. It is hard, if not impossible, to dream of safe neighborhoods without including in the picture well-built homes, with children playing, flowers blooming and generous neighbors. This image's hold on our imagination and housing's great impact on the economy ensures that this form of development will always be high on local development agendas. Housing also mirrors the communities it serves—reflecting confidence, economic stability and a thriving home life if well-maintained, and dragging down the community if left to deteriorate.

Since 1983, the McAuley Institute has worked with 2,000 nonprofit organizations and housing development projects across the country to help bring their dreams to reality. McAuley, a national nonprofit intermediary sponsored by the Sisters of Mercy of the Americas, targets low-income communities where resources have been systematically withdrawn or lost through disinvestment. We especially focus on projects and strategies that serve low-income women and their families.

In the past three years, a growing proportion of McAuley's work has been in the Federal Reserve's Eleventh District, from its urban areas to the border regions of Texas and New Mexico.

Our work with community-based nonprofits has been as diverse as the geographic areas we serve in the District.

In Pasadena, Texas, for example, we are working with a consortium of women's shelter providers to build transitional housing for survivors of domestic violence. Farther south, we made a loan to Proyecto Azteca to finance the first six units in its self-help housing project in San Juan, Texas. Proyecto has gone on to produce an additional 35 units.

In Louisiana, we worked with the Southern Mutual Help Association to secure development deposits to subsidize affordable housing development for former sugarcane workers. Recently, we have been working with the association to create a separately incorporated housing development organization.

These programs are examples of the training and resources McAuley employs to move a vision to reality. An analysis of recent projects shows that requests for assistance fall into three categories: technical assistance, funding through a revolving loan fund and organizational support.

Technical Assistance

Technical assistance is the soup-to-nuts category—helping groups respond to housing needs in ways that are well matched to the community and can adapt to change over time. Assistance is customized to each locale, weaving a unique mixture of program models, problem-solving techniques and project design.

In Houma, Louisiana, for example, we worked with local leaders to launch a comprehensive redevelopment plan to rebuild the community after the ravages of Hurricane Andrew.

"When I came in, the work Catholic Housing Services had already done with McAuley gave the organization a year's head start on groups that hadn't worked with McAuley," says Paul James, program manager of Catholic Housing Services.

Upon completion of a multitiered planning process, Catholic Housing and McAuley focused on implementation of the housing program's components: construction of new single-family homes, rehab of existing housing and home ownership counseling. Early on, a consortium of local lenders provided \$100,000 for a down payment assistance program.

Revolving Loan Fund

Predictable access to affordable and flexible development capital is the lifeblood of community-based housing development. McAuley operates a revolving loan fund that is ideally suited to the complexity of community development and can be flexibly used to ease the challenges of working with multiple contributors.

Our funds are most often used in the early stages of development, for land acquisition, construction or rehabilita-

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ESOURCE

A small Dallas bank has learned that pairing the right loan product with the right customer benefits the bank, the customer and the local economy.

First Texas, a \$135 million bank located in a low- to moderate- income neighborhood, specializes in loans to small minority businesses that manufacture and provide services to the area's economy.

"Small businesses and the mom and pop shops are the heart and soul of our economy," says William E. Stahnke, president of First Texas.

The bank helps area businesses by making loans that are partnered with a government-sponsored loan or other types of lending resources such as the Business Consortium Fund Inc. (BCF).

BCF is the minority business development arm of the National Minority Supplier Development Council. The BCF provides contract financing to certified ethnic minority-owned businesses across America through a network of local participating banks and Regional Minority Purchasing Councils/Regional Minority Supplier Development Councils. The loan program is funded through several types of sources including corporations, state governments and foundations. To qualify for a loan, the borrower must be a member of a Regional Minority Purchasing Council or Regional Minority Supplier Development Council.

The bank acts as a conduit when it uses a BCF loan program in tandem with its loan products. The bank introduces the BCF program to the small business, and the bank performs a financial analysis to ensure the small business can repay the loan. The BCF requires the bank to provide 25 percent of the loan, while the BCF lends the

A Small Bank With Big Ideas

First Texas Bank Helps Finance Minority-Owned Businesses

remaining 75 percent.

In January 1988, First Texas Bank worked with the BCF to originate a \$250,000 line of credit for Business Control Systems Inc., which provides computer-related services to many U.S. corporations. Business Control began as a small certified minority business enterprise led by Bernie and Diane Francis, a husband and wife team with 40 years experience in the data processing industry.

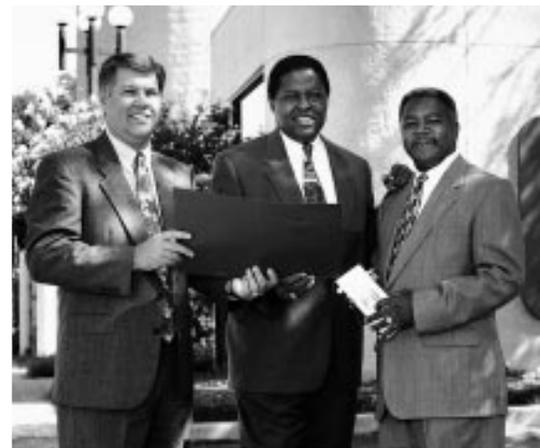
First Texas Bank renewed Business Control's line of credit in 1989 and in 1991 approved a \$200,000 loan without BCF involvement. As Business Control began to grow, it established a good credit history, enabling the bank to raise the credit line to \$400,000 in 1994.

As the company continued to grow at a fast pace, more working capital was needed. The bank worked with Business Control to find credit options that would suit the company's needs. In December 1995, the bank approved an \$800,000 Cash Flow Manager line of credit. Cash Flow Manager is an accounts-receivable management and financing program purchased by the bank to better serve its small business customers. As a part of the program, the bank purchases receivables that are submitted by the business on an ongoing basis. Within 24 hours, the business

receives payment for each invoice. The bank then handles the billing of receivables and processes payments on the business' customer accounts.

After using the Cash Flow Manager product for four months, First Texas purchased more than \$1 million in invoices from Business Control, helping free the company's working capital. Business Control could then take advantage of trade discounts and other business opportunities.

In addition to the BCF loan and the Cash Flow Manager products, First Texas created a menu of loan products



From left: William E. Stahnke, president, First Texas Bank; Bernie Francis, owner, Business Control Systems Inc.; Ralph Jones, senior vice president and loan officer, First Texas Bank

that meet the specific needs of its customers and allow the bank to share its credit risk, according to Stahnke. For instance, the bank offers a Department of Transportation loan program, similar to the BCF program, for small disadvantaged business enterprises in the transportation industry.

"If you put the right product with the right company, the company will grow, the bank will grow, and the economy will grow," says Stahnke. ▼

R EPORT

When El Paso Habitat for Humanity, a nonprofit organization dedicated to providing affordable housing for low- and moderate-income people received assistance from a local financial institution, it was not in the form of a loan or monetary donation.

Instead, Bank of the West provided technical assistance by helping the nonprofit complete a grant application for funds from the Federal Home Loan Bank of Dallas' Affordable Housing Program (AHP). The bank's help with the application enabled Habitat to structure the information in a way that maximized its potential for receiving the AHP money ultimately awarded to the organization.

"Affordable housing in El Paso is a big issue, and this program has gotten the ball rolling for revitalization and new construction here," says Eric Hjalmsquist, vice president at Bank of the West in El Paso. "Anything we can do to support and nurture the process of building affordable housing here is rewarding. This was a situation where we were able to sit down with Habitat and help them complete the grant application."

Under the new Community Reinvestment Act regulation, such community development services may be considered in the performance assessment of both large and small financial institutions. Large financial institutions—with assets of at least \$250 million or affiliates of a holding company with total banking and thrift assets of at least \$1 billion—are typically evaluated for CRA performance under lending, investment and service tests. Examiners of large institutions consider community development services under the service test. Examiners assess how innovative the institution's services are, their extent and

Community Development Through Service

their responsiveness to the community's needs.

A small institution's provision of community development services, including their innovativeness and responsiveness, are considered, at the institution's option, in determining whether the institution merits an "outstanding" rating.

A community development service has community development¹ as its primary purpose, relates to the provision of financial services and is not considered part of an institution's provision of retail banking services. Community development services must also benefit the institution's assessment area or a broader statewide or regional area that includes the assessment area.

First State Bank of Livingston, Texas, offers an example of a community development service in which the bank provides technical expertise to low- and moderate-income individuals. "The bank assists members of a local Indian tribe in applying for HUD grants to build or upgrade their homes," according to Tony Taylor, vice president and senior loan officer of commercial lending. Additionally, First State Bank CEO Ben Ogletree has served on a regional board of the Texas Department of Housing and Community Affairs, where his financial expertise played a significant role in evaluating Community Development

Block Grant funding applications for rural communities.

Community development services also include providing credit counseling and financial planning to promote affordable housing and community development. In Monroe, Louisiana, Central Bank assisted in developing the Monroe Affordable Homeownership Community Housing Development Organization, which provides education and counseling to low- and moderate-income individuals. Classes are held in churches or community centers in low- and moderate-income areas of Monroe. Central Bank is also participating in Project Independence, a counseling and financial-planning training program that targets women who are welfare recipients.

Residents of Dallas-Fort Worth are benefiting from a team approach to credit counseling, homebuyer counseling and financial planning. Eight financial institutions and the Consumer Credit Counseling Service have formed the Dallas Credit Coalition, which sponsors a six-week, hands-on workshop entitled *Fundamentals of Good Credit*. The workshop is designed to help individuals develop good financial management and learn about the use of credit.

"The class is designed for people who want to straighten out their credit or for those who just want to know more about how credit works," says Alfreda Norman, vice president for Bank of America in Dallas and executive finance chairman of the Dallas Credit Coalition. "It is an opportunity to let customers understand that it is OK to talk to their bank about credit or other financial issues."

The Houston Credit Coalition pro-



vides similar services in the Houston metropolitan area.

Deposit services that reduce costs and improve access to financial services for low- and moderate-income individuals are also considered community development services. Norwest Bank in Lubbock, for example offers low- and moderate-income individuals "Unbelievable Checking," an account that provides free checking services and does not require a minimum balance.

"Norwest Bank recognized that

housing tax credit deals.

"Nonprofit organizations that are trying to rehabilitate low- and moderate-income areas are many times turned down for permanent financing because underwriters are not familiar with the

One's Tarrant County market, served as director of the William Mann Jr. Community Development Corp. (CDC), a multibank CDC that promotes economic development in one of Fort Worth's low- and moderate-income areas. Forbes remained employed by Bank One while helping to jumpstart the CDC by soliciting potential investors, developing a budget and identifying a permanent director to oversee the CDC.

"I feel like a proud father because we worked through a lot to achieve what is considered a very successful pro-

Examples of community development services include, among other things: providing technical expertise for not-for-profit, tribal or government organizations serving low- and moderate-income housing needs or economic revitalization and development; lending executives to organizations facilitating affordable housing construction and rehabilitation or development of affordable housing; providing credit counseling, homebuyers counseling, home maintenance counseling and/or financial planning to promote community development and affordable housing; school savings programs; and other financial services the primary purpose of which is community development, such as low-cost or free government check cashing.

many of its customers were using checking accounts for bill paying and didn't need special features," according to Jay Freeman, Norwest director of sales and marketing support.

Lending executives to organizations developing affordable housing and promoting economic development is another way a financial institution can perform community development service.

Bank One, Dallas officials work with nonprofits to provide information and training on how to develop low-income

complex process," says Arcilia Carrasco Acosta, regional Bank One CRA officer. "Bank One has recently created a lending department that is specially trained to underwrite low-income housing tax credit projects. Low-income housing tax credits are definitely community partnerships, and if the financial organizations don't step up to the plate, the projects can't meet their full potential."

In Fort Worth, Glenn Forbes, community development officer for Bank

ject," says Forbes. "I learned enough about owning and operating a business that now I can be sympathetic to small businesses that come to me to apply for a loan."

¹ Community development is defined in the revised CRA regulation as: affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing small businesses or farms; or activities that revitalize or stabilize low- or moderate-income geographies.

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tion, and gap financing. For the Kings Court Housing Foundation in San Antonio, McAuley and the San Antonio Housing Trust cooperated on the construction loan for 16 units of housing for older neighborhood residents. A \$265,000 loan to Woman Inc. in Pasadena partially financed 30 family-sized units. With the acquisition of six city-owned units and funds from a McAuley loan, Guadalupe Neighborhood Development Corp. expanded its capacity in a troubled neighborhood of southeast Austin.

Organizational Support

The successful organization regularly employs planning and evaluation to help ensure accountability to community residents and contributors, as well as to identify fiscal and management efficiencies. McAuley staff often work with nonprofit staff and boards to determine the best programmatic balance for their organizations, while they assess the strengths and weaknesses of administration and funding—building on past successes to ensure future impact. In this area of support, we have been impressed by the contributions of lending partners across the country. The senior management of these lenders trained their community development partners in strategic planning and business analysis.

Partnerships

If a successful neighborhood or community can be measured by the quality of its housing, its long-term viability will rise or fall with the quality and leadership of its partnerships.

Partnership is a collaborative concept easily invoked but rarely mastered. The best partnerships are cognizant of the

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limits of resources and the boundaries of self-interest—written with all the parties in the same room. In Washington, D.C., we have been working with community development lenders to test one such collaborative concept.

For the past 18 months, participating nonprofit lenders and city and corporate representatives have met regularly on efforts to lower the cost of processing home loans, to ease confusion among borrowers and lenders, and to more efficiently match projects and resources. At this point, we have completed work on a common loan application, promissory note, deed of trust and intercreditor agreement. While drafting the documents, the nonprofit lenders group also met regularly with District of Columbia-area financial institutions, city officials, nonprofit developers and the Community Development Committee of the American Bar Association to define a collaborative process that will ease the difficulties of working across sectors.

We are eager to continue expanding our services in Texas and Louisiana and to identify possibilities for our first opportunity to work in New Mexico. This spring, we committed \$1 million for low-interest loans to finance affordable housing in the Houston–Galveston area and look forward to making similar commitments of time and funds elsewhere in the Federal Reserve's Eleventh District. ▼

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