

erspectives

Rethinking Campus Housing A New Development Approach

*Public/private partnership brings
apartment-style housing to
Prairie View A&M*



Prairie View A&M students enjoy the comfort and privacy of University Village.

Like many universities across the country, Prairie View A&M faced a critical student housing problem. Housing units at the school were 26 to 50 years old and deteriorating rapidly. Most were designed for three students to share a 168-square-foot room and for six students to share a bathroom.

Caught between a growing enrollment and a tight state education budget, the university lacked the money to renovate its large institutional housing structures, let alone invest in new construction. Students had already scrambled to occupy what little off-campus housing they could find in the small town of Prairie View, population 4,000. Tired of cramped, outdated dorms, students wanted the privacy and space of apartment living. By January 1996, the university's housing shortage had become critical.

Prairie View's solution? Mix the best features of off-campus apartment living

with the convenience of on-campus access, through an innovative public/private partnership. Prairie View worked with Texas Commerce Bank and American Campus Lifestyles Cos., a for-profit developer, to build apartment-style housing for 672 students on university property in time for students to move in that fall.

"We're very pleased," said Col. Al Aldridge (Ret), director of housing and dean of students at the historically black university. "We've had several visitors from other universities come specifically to see how this works, and they have all oohed and aahed about this project."

University Village consists of 168 four-bedroom, two-bath units in nine buildings on a 10.2-acre site. Each 900-square-foot unit houses four students, meaning every student has a private bedroom and only two students share a bathroom, not six. Each unit has a living

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and kitchen area, is fully furnished and wired for cable TV and access to the university's computer network.

The cost for these enhanced amenities was much lower than for traditional student housing. The construction cost per bed at University Village was approximately \$15,000, vs. \$50,000 to \$60,000 per bed for large institutional housing structures, according to Wayne Senecal, president and CEO of American Campus Lifestyles Cos.

(ACLCL) in Austin. ACLCL uses framed construction for its student housing projects, which is much less expensive to build and maintain than large brick or concrete institutional buildings.

"That's very cost-effective. Universities are finding that renovating old dorms is too hard, too expensive. Trying to renovate aging brick buildings can cost more than starting over with new construction," Senecal said.

With agreements signed in January 1996, Prairie View A&M granted ACLCL a 25-year ground lease for the 10.2-acre site but did not have to invest any funds to get the project started. Texas Commerce Bank in Austin provided a one-year \$10.277 million loan to ACLCL to construct and furnish University Village. The loan converts into a three-year mini-perm loan amortized at 25 years, with leasehold interest in the property and assignment of student rents as collateral.

It's a solid partnership for everyone involved, said Wendel Pardue, vice president and senior real estate account officer for Texas Commerce Bank.

"The strength of the university system makes this a good deal for us,"



Prairie View A&M provided 10.2 acres for the student housing units.

Pardue said. "We can depend on the university to perform and on ACLCL to meet its goals."

ACLCL supervised the design and construction of the project, working with a bonded contractor. Construction began in February 1996 and doors opened in August, in time for the fall semester.

After operating expenses, debt service and reserves are taken care of, the university and ACLCL split the net cash 50/50. ACLCL has a five-year contract with the university to manage and maintain the project, for 5 percent of gross revenues. At the end of any three-year period, the university can terminate the management contract with ACLCL.

The university can buy the project any time during the 25 years for the amortized price, which would terminate the ground lease. At the end of the 25 years, the university can buy the project outright for \$1, provided the debt has been fully amortized.

ACLCL approached Texas Commerce Bank about financing the project

without any university funding because the university needed to spend its limited funds to construct academic buildings. Pardue said the bank sees a future in public/private partnerships for student housing because its risk is minimized by the involvement of the public institutions.

The bank's student housing market isn't subject to the ups and downs of the regular real estate market, with steadily growing demand generated by older student housing that must be closed because it is too expensive to renovate.

"Privatized student housing is only going to grow," Pardue said. "Universities have to replace those out-of-date dorms. There's not really any alternative."

Meeting needs of today's students

Roughly half the student population of 6,200 lives on campus at Prairie View A&M. While the project was being constructed, more than 1,300 students were on a waiting list for the 672 new spots, Aldridge said. Soon after doors opened in August 1996, University Village was 100 percent occupied with a standing

Fast Facts

University Village Student Housing Complex

waiting list to get in.

Much like a regular apartment complex, University Village has gated access and free parking. The project also features a 5,000-square-foot clubhouse with a fitness center, computer room, study lounges, a television lounge, and volleyball and basketball courts.

An on-site manager and maintenance staffers (employees of ACLC via the management contract) handle day-to-day operations, including student leases. Students sign individual leases, which means they do not have to worry if someone in their unit moves out or falls behind on the rent.

Most utilities are included with the rent. Students are only responsible for electricity bills in excess of \$25 monthly per unit. Rents are \$2,300 to \$2,450 per year per student, comparable to traditional student housing at Prairie View.

"The residents are bound by our judicial policies and the student handbook. ACLC has aligned its policies with our housing manual," Aldridge said. "Students still get the benefits and security of regular student housing."

To support a successful project, three members of the university and three members of ACLC have formed a joint management committee to supervise all operations at University Village.

More projects in the works

To meet Prairie View A&M's growing enrollment, the university, ACLC and Texas Commerce Bank have launched a second phase of University Village. Using similar agreements among the parties, ACLC closed on another loan from Texas Commerce Bank in

A partnership between Prairie View A&M University, Texas Commerce Bank and American Campus Lifestyles Cos. (ACLC), a for-profit developer, to develop 168 four-bedroom/two-bath student housing units on campus. The project, which houses 672 students in a modern apartment-style setting, helps the university recruit and retain students and has significant economic benefits for the surrounding community.

Prairie View A&M University, 10.2 acres on campus

The university gave ACLC a 25-year ground lease on the project site, but did not have to invest any money up front to launch the project. The university and ACLC split the project's net cash flow 50/50 throughout the term of the lease. The university may purchase the facility at the end of each fiscal period at an amortized price, which also would end the ground lease. At the end of the 25-year ground lease, the university has the option of buying the project for \$1 provided the debt has been fully amortized.

American Campus Lifestyles Cos. (ACLC), Developer

ACLC served as developer and construction manager. ACLC also has a five-year contract with the university to manage all operations for the project, including student leases and maintenance. The management contract pays ACLC 5 percent of gross project revenues and can be terminated by the university at the end of any three-year period.

Texas Commerce Bank, \$10.277 million loan

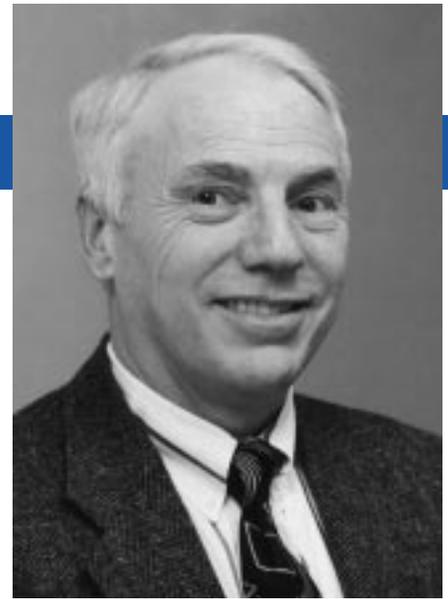
The bank provided a one-year construction loan to ACLC, after which the loan converts to a three-year miniperm amortized over 25 years, with leasehold interest in the property and assignment of the rents as collateral.

For more information:

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David Boehlke—
former executive director,
Neighborhoods Inc., Battle Creek, Michigan



Commentary

Seven Principles for Reducing Delinquencies

David Boehlke is the former executive director of the nonprofit neighborhood revitalization group Neighborhoods Inc. in Battle Creek, Michigan. Currently he is working on a book about market-based neighborhood revitalization. In this article, he discusses seven principles to help ensure mortgage loan performance.

For many lenders, the fact is that delinquency rates in special lending programs are consistently higher than for conventional loans. Yet good performance on affordable mortgage products is vital to the long-term success of these programs.

National studies have shown that very small down payments, coupled with limited monthly reserves and past credit problems, can lead to higher delinquency levels on home mortgages.

The central issue isn't the trend toward higher delinquency. The focus should be on reducing this rate, because we must continue to serve this home ownership market. As Americans we honor families who struggle to buy and improve their homes. We recognize the social and economic costs of declining home ownership. As a nation, we have seen too many neighborhoods fail as caring homeowners left, replaced by owners without the resources, skills, or desire to improve or maintain properties.

Too often the failure of a loan is discussed in terms of the impact on the borrower, the lender or the lending product. The failure of a loan also profoundly

affects a neighborhood. Neighboring property owners might not be aware of one or two foreclosures, but if a pattern of delinquency and foreclosure becomes common, owners recognize that something isn't working. As a result, they start omitting improvements or delaying maintenance.

All too quickly the pattern of disinvestment is confirmed.

Finding some answers

Fortunately, there are answers. One possible answer comes from Battle Creek, Michigan, a small industrial city recovering after years of decline. City leaders, local lenders and residents are restoring older neighborhoods through a complex series of innovative strategies that rely heavily on special lending programs.

The strategies involve large-scale initiatives to demolish abandoned buildings, repave streets, repair substandard houses and attract new businesses and institutions. Reinforcing these dramatic changes are resident-driven, self-help block projects, volunteer service and grants to upgrade the homes of the elderly, and comprehensive programs to train residents in expanded neighborhood leadership roles.

The principal strategy emphasizes lending for home purchase and for home repair. In less than five years, Neighborhoods Inc., a nonprofit organization, has made more than 700 loans that have helped create more than \$10 million in direct investment. These loans have significantly increased the percentage of home ownership, while creating higher standards for home maintenance.

With lending at its core, good loan performance is critical. Local leaders decided to build good performance into the design and delivery of loan products. My staff and I worked on this goal.

To accomplish this, we committed ourselves to flexible but sound underwriting and to seven principles for reducing delinquency:

1 Maximize the buyer's responsibility.

It isn't beneficial to hold a buyer's hand through every aspect of the purchase.

Each borrower needs to work hard to buy if ownership is to be valued.

Neighborhoods Inc. expects borrowers to resolve their own credit problems, to track down missing records, and to establish and follow a good day-to-day budget. Neighborhoods Inc. also tries to include some modest sweat equity, so home buyers develop a stronger sense of personal involvement.

Neighborhoods Inc. reaps a remarkable return on its investment by lending a few hundred dollars for the home buyer to landscape the front yard. This results in a more involved buyer, a more attractive home, an improved neighborhood, and we believe, a better loan.

2 Prepare customers to make sound choices.

If counseling starts after the signing of a purchase contract, we have lost the best opportunity to help buyers. Buyers need to think through whether home ownership is right for them, what features the house should have now and for resale later, and what role the neighborhood plays in the purchase decision. Because lower income buyers don't have as many choices, helping them make a well-considered one is even

more important.

Higher priced houses usually benefit from more active real estate agent involvement in the education process. We need to build the same training investment into the purchase of more affordable properties. A well thought out decision will produce a more committed borrower.

3 Remind borrowers they are buying a house and a neighborhood. Encourage informed buyers to study the dynamics of the local real estate market. Borrowers need to analyze trends in the neighborhoods. A home purchase isn't done just to acquire good housing; it is a major investment and should show equity growth. One of the fast tracks into the American middle class is a sound home investment. An attractive house in a neighborhood of declining value usually ends up on an economic sidetrack. The resulting frustration can undermine good payment behavior.

4 Promote the goal of being "house proud." Being proud of one's home is a powerful impetus to action. Affordable housing programs that only bring houses to a code-compliant condition may undermine a sense of pride in ownership. We've never met the buyer who proudly points to a house as meeting minimum standards. Home buyers need to feel their homes are special: an oversized kitchen, a gracious porch, or even just an outstanding paint job. If borrowers face some tough payment decisions, pride in the home is a compelling force to assure we get paid.

5 Provide counseling about the decision to buy, not just about the process of buying. Deciding about buying a home and committing to pay the mortgage on time should be the focus for counseling. The mechanics and jargon of buying—title searches,

right of rescission, the distinction between a note and a mortgage—are important only if the fundamental decision to borrow is a sound one.

Too often a loan is approved contingent on reading a home-buying guide or attending a class. Yet much of what is learned will soon be forgotten. The important lesson: when borrowers know why they are buying, they will know why it is important to pay.

6 Structure financing as close to conventional as possible. Even when the nonprofit Neighborhoods Inc. was involved in financing, we made every effort to place part of the financing with a conventional lender. Because most special programs are for people with a deficiency—too little down payment, insufficient earnings, shaky credit—these lending programs might imply a second-class status. Psychologically, this signals that the customer qualifies only because of failing. We need to mitigate this by showing that a conventional lender is enthusiastic about taking on part of the loan.

Having a nonprofit agency approve your loan is one thing; having a bank approve it is quite another. Banks serve mainstream Americans who don't need a special program. Reinforcing a standard bank relationship will strengthen the borrowing and lead to a long-term customer who pays.

7 Continue a positive relationship after closing. In most conventional loans, lenders pay close attention to borrowers at purchase or at delinquency. This is reasonable. However, in a truly comprehensive affordable-lending program, the borrower is critical as an ongoing element in the neighborhood. Committed, enthusiastic home buyers encourage others to buy a home and reinforce current homeowners who are consider-

ing property improvements.

A borrower committed to the neighborhood is more likely to be committed to loan repayment. Therefore, a good counseling program keeps an ongoing relationship with the borrower and encourages involvement in the community. There is a positive relationship with the counselor if payments become a problem.

Shared expectations

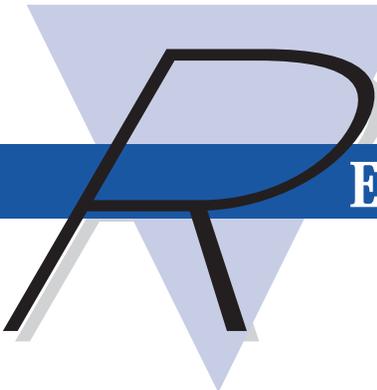
Do these principles pay off? I believe they do. Of course, good underwriting is critical to a good loan, but delinquency control also must be built into every aspect of the purchase and mortgage process.

Is Neighborhoods Inc. pleased with the results? No. At any given time, troubled loans account for 2 percent to 3 percent of the group's portfolio. This is unacceptably high for a conventional lender. For a nonprofit organization lending to buyers who don't qualify for conventional lending, Neighborhoods Inc. expected higher percentages.

However, expecting higher delinquency and accepting poor loan performance are not the same thing. Neighborhoods Inc. continues to work hard to strengthen performance, not just to guard its portfolio or its borrowers, but to protect neighborhoods.

How can this experience apply to lenders in the Eleventh Federal Reserve District? In today's highly competitive business environment, most lenders can't reasonably attempt the sorts of initiatives used every day by Neighborhoods Inc. in Battle Creek. Fortunately, most lenders have a relationship with a similar nonprofit already. What is absent isn't the opportunity; what is usually missing is the expectation that nonprofit groups set high performance standards and meet those standards.

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CRA Reform The First Year

With a year of experience under the new Community Reinvestment Act (CRA) rules, now is a good time to assess how well it's gone. Overall, the reports are quite positive. After controversy and uncertainty about making improvements, both bankers and field examiners seem generally pleased with the new small bank examinations. But there are still challenges ahead. As with any new program, there are some bugs to be worked out. As most large banks have not yet been examined, it's a bit premature to declare a complete success.

The outlook, however, is bright.

After two years of work, in January 1996 the agencies (the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency and the Office of Thrift Supervision) put in place two of the three main pieces of CRA reform: streamlining small bank examinations and large bank data collection. The third piece, mandatory large bank exams, will begin July 1, 1997.

The new rules mark the culmination of an exhaustive—and some participants would say *exhausting*—process to reshape CRA. That process involved public hearings throughout the country, thousands of pages of public comments, and marathon meetings among the agencies to hammer out a new approach.

The goals of less burden, more rating predictability and greater credibility were far easier to articulate than to implement. In the end, there was general agreement that the new structure, with its shift in focus from measuring process to measuring performance, could better meet these objectives. So, what's been the experience?

The good news is most small banks seem to like the new CRA rules, as do examination staff. Unnecessary paperwork has been reduced, and this pleases everyone. Measuring results makes sense. Performance is what's important, so why not focus directly on it? The agencies also pledged to shift the burden of data collection from small institutions to examiners, and to a large extent this has happened. The industry's compliance burden has been reduced, and that's a plus.

Of course, having examiners in the bank is still something of a burden. At the Federal Reserve, examination time has actually gone up under the new rules. To compensate, efforts are being made to move as much of the CRA evaluation off-site as possible. But doing so requires having performance-measuring data in automated form. Requiring automated delivery would be counter to the goal of not imposing data collection requirements on small banks.

The solution has been to let small banks know that the more they can automate and provide the necessary data on a voluntary basis, the less they'll have to see examiners in their bank.

Despite the overall positive reaction to the new small bank examinations, we are still learning. By its nature, CRA is imprecise. Thus, it's imperative that the agencies constantly strive for uniformity of interpretation. Fortunately, the agencies are committed to achiev-

ing this goal. The common regulations have been followed by joint examiner training, uniform examination procedures and a single set of written answers to typical CRA questions.

To help assure consistency, the agencies have jointly reviewed their public CRA evaluations to see what is and isn't working. All of these efforts are in the right direction. But given the natural difficulties of having four separate entities involved, each examining for compliance, it takes constant work to help assure uniformity. Perfection will never be achieved. Still, on this aspect of implementation, the agencies deserve high marks so far.

There are other areas where more work is needed. One issue is the possibility of "grade inflation." An important goal of the reform effort was to assure more credibility to the CRA evaluations. This suggests a need for rigor in the evaluation process. But in the first three quarters of 1996, 24 percent of small institutions received an outstanding rating, up from 20 percent in 1995 under the old rules. Does this reflect the new rules? Or the rigor of the agencies' implementation of them? Agencies need to keep a sharp eye on this.

The agencies also want to make sure those ratings are fully supported by facts, data and analysis in public evaluations. On this point, the agencies have identified the need for improvement. Additional guidance has been provided to examiners to help assure the basis of each rating is clear from the public evaluation.

In short, with regard to small bank examinations, first-year returns are generally very positive, particularly with respect to burden reduction. However, more work and experience is needed



before we can declare a complete win.

In many respects, the overall success of the entire reform effort is still unknown, since almost all large banks will continue to be examined under the old system into 1997. We are already halfway there in the reform process for large banks, since large banks are collecting the new data required for their evaluations. But we won't really know how things are going until "the rubber meets the road" when examinations start in July.

Moreover, community groups are taking a wait-and-see attitude about the new rules. They were major players in the reform effort, and their views on the success of the new rules will be important.

Some data collection worries have surfaced (including underreporting of business loans secured by personal real estate), and some institutions had to scramble to put in place the necessary reporting systems. The agencies are gearing up to receive the data and are working hard to perfect analytical systems.

Some large banks worry that the shift in emphasis under the new rules—from evaluating process to counting loans—will result in undue pressure to relax underwriting standards. But the agencies have said clearly and repeatedly that they do not want institutions to

“ To help assure consistency, the agencies have jointly reviewed their public CRA evaluations to see what is and isn't working.”

compromise safety and soundness in making CRA loans. To the extent there is a finite volume of good loans, this fact must be recognized by institutions and agencies alike. This may take close monitoring.

The agencies' examiners will need to be very sensitive to this and be faithful to the stated policy of expecting safe and sound lending. Next spring, the agencies will jointly train the examiners in large bank assessment techniques, and this will be one aspect.

A long-term risk may stem from the fundamental nature of CRA—its imprecision and flexibility, much of which still exists despite the recent changes. That fact makes some people uncomfortable. Despite the extensive regulations, examiner guidelines, questions and answers, and advisory letters, there continue to be calls for more "guidance."

But the weakness of CRA—its ambiguity—also is its considerable strength. CRA depends on good judgment, within the confines of the unique nature of each community and institution. Excessive "guidance" from Wash-

ington risks compromising this local focus. We know from the first year that no matter how many answers are given, there will always be more questions.

We should be very cautious about starting down the path of even more refined rules defining performance, lest we find ourselves with a bureaucratic Washington-driven program, rather than one focused on local community needs and capabilities.

If there's a disappointment, it's that so few institutions have taken advantage of the strategic plan option, particularly since it allows a bank to know for certain how it will be evaluated. This involves developing a plan, seeking community input and getting agency buy-in to using this plan as the benchmark for evaluating the institution's performance. On paper it seems the perfect solution to the uncertainty problem that bedevils CRA.

But so far, few banks have chosen this option, and in most cases the plans submitted for approval haven't been specific enough with regard to measurable targets. Perhaps the reluctance to pursue the strategic plan avenue is understandable, given its uncertainties—for example, the extent of community group involvement in the process. But we can be hopeful that more institutions will try this approach after we see the first ones approved.

But that's too somber a note to close on. All in all, this first year of implementing CRA reform suggests that through the cooperative efforts of bankers, community groups and the agencies, significant strides have been made in improving CRA. It's fair to rate the results so far as "satisfactory," with good prospects for an "outstanding" in the future. ▼

DID YOU KNOW..?

Collecting Optional CRA data

The revised CRA regulation requires large financial institutions (\$250 million or more in total assets or affiliates of a holding company with \$1 billion or more in total assets) to collect, maintain and report annually certain information by geographic location. This includes information on small business and small farm loans, community development loans and the assessment area(s) in which the institutions serve. Under the revised regulation, financial institutions have the option to collect and maintain (but not report) additional loan information.

The CRA Data Entry Software developed by the Federal Reserve System provides loan type fields such as *other secured lines/loans for purposes of small business* and *other loan data for automating the optional collection and maintenance (but not reporting) of this additional information*. Following are examples of the type of loan information financial institutions may collect and maintain for consideration by examiners but should not report.

If a financial institution (acting as a broker) funds a home mortgage loan but immediately assigns the loan to the lending institution that made the credit decision, the broker institution does not report the loan under the Home Mortgage Disclosure Act (HMDA). HMDA requires the loan to be reported by the institution making the credit decision. However, the broker institution has the option to collect and maintain (but not report) information about these loans under the loan type field *other loan data*.

Loans, lines of credit and purchased loans secured by residential real estate and used to finance small businesses are not included as "small

business loans" for call report. If these loans promote community development as defined by the regulation, they should be reported as community development loans. Otherwise, the institution has the option to collect and maintain (but not report) data concerning these loans under the loan type field *other secured lines/loans for purposes of small business*.

An institution also may collect and maintain (but not report) information about its modification, extension and consolidation agreement (MECA) activities under the loan type field *other loan data*.

When collecting information on a home equity line of credit, part of which is for home improvement purposes but the predominant part of which is for small business purposes, an institution may report the portion of the home equity line that is for home improvement purposes under HMDA. If the line promotes community development, as defined by the regulation, the entire line of credit should be reported as a community development loan. Otherwise the institution has the option to collect and maintain (but not report) data on the entire line of credit under the loan type field *other secured lines/loans for purposes of small business*.

If an institution wishes to provide information about leases, it may collect and maintain (but not report) this data under the loan type field *other loan data* for consideration under the lending test.

Notice 96-113 from the Federal Reserve Bank of Dallas explains these options and answers questions most frequently asked about CRA implementation. For a free copy of the notice, contact the Dallas Fed's Public Affairs Department toll free at 1-800-333-4460, extension 5254, or (214) 922-5254. ▼

(Rethinking Campus Housing, continued from page 3)

December, with construction to be completed in August 1997 on an 11-building complex to house 648 students.

"This solved our most immediate need, for additional housing, without the university having to put up funding," Aldridge said, "and the student demand for this type of housing has just been tremendous. We're pleased." ▼

(Seven Principles for Reducing Delinquencies, continued from page 5)

It is far too easy for both nonprofit groups and conventional lenders to accept poorer performance from special lending programs. The challenge is to set higher goals and then to structure the programs and resources to attain the goals.

The result will be more than good portfolio performance and more than just stable home ownership. The result also will be renewed strength for our older neighborhoods. ▼

Perspectives

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