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Nuestra Casa (Our House): A New Model for Self-help & Improvement Along the Texas/ Mexico Border

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In 2007, the Nuestra Casa program was evaluated by the Texas A&M Department of Landscape, Architecture and Urban Planning, with Dr. Cecilia Giusti as primary investigator. Her final report indicated that Nuestra Casa provides a highly effective model to improve the quality of life for residents along the border. What is more, program funds are often spent on local materials and local labor, which increases both commerce and income in these marginalized communities.

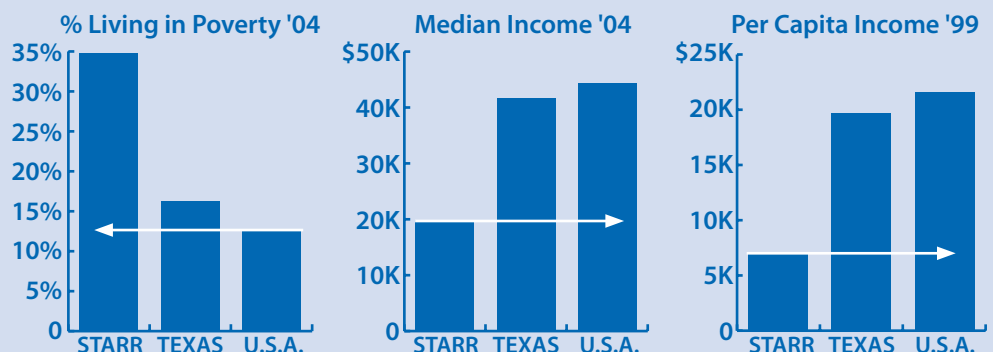
Nuestra Casa (Our House) is a revolving fund, micro-credit program for home improvement. The program started in the colonias of Starr County, Texas, one of the areas in the United States known for high levels of poverty and isolation. The program offers home improvement loans of \$2,500 each on a 9 percent interest rate to be repaid over a two-year period. Loans are made to any qualifying applicant in Starr County.

Starr County is one of the poorest counties in the nation. Its median household income is only \$19,775, which is less than half the median household income in the state of Texas and the nation. Poverty levels are alarming, and 34.8 percent of county residents live below the poverty line. This is more than twice the state rate and close to three times the percentage nationwide (Figure 1). Further, families in the county are larger, on average, than other families in Texas and the U.S., and per capita income is only one third of the state average. Wages for colonias residents are even lower than the county average.

COLONIAS: THE CHALLENGE

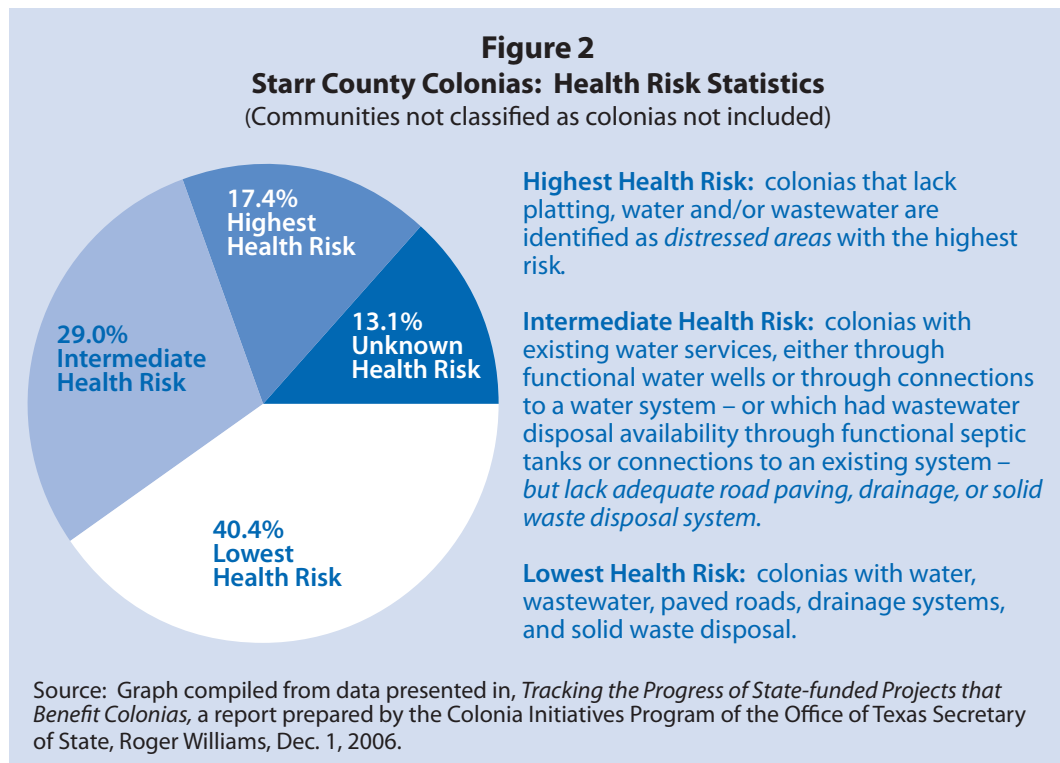
In Spanish, the term "colonia" means "community" or "neighborhood." The Texas Office of the Secretary of State defines a colonia as a residential area along the Texas-Mexico border that may lack some

Figure 1
Comparative Poverty-related Demographics:
Starr County, Texas, and the U.S.



Source: Graphs compiled from data of the U.S. Census Bureau, *State & County QuickFacts*, <http://quickfacts.census.gov/qfd/states/48/4827.html>, accessed July 31, 2008. Lines added for comparison.

The challenge of providing services to colonia residents is one of the most complex human health and environmental challenges facing Texas today.



of the most basic living necessities, such as potable water and sewer systems, electricity, paved roads, and safe and sanitary housing. Colonias can be found in Texas, New Mexico, Arizona, and California, but Texas has both the largest number of colonias and the largest colonia population. Approximately 400,000 Texans live in colonias. Overall the colonia population is predominantly Hispanic; 64.4 percent of all colonia residents and 85 percent of those residents under 18 were born in the United States. There are more than 2,294 Texas colonias, located primarily along the state's 1,248 mile border with Mexico.¹

Definitions of the term "colonia" differ among federal and state agencies. For example, some government programs dictate that colonias be located in a county in which any part of that county is within 50 miles of the border, while others might extend that distance to 150 miles. Some programs mandate that for an area to be defined as a colonia, it must be located in an unincorporated part of a county.

Since many colonias do not have sewer systems, residents must rely on alternative, often inadequate, wastewater disposal methods. The problem is exacerbated by the poor quality of colonia roads, which are often unpaved and covered with caliche (naturally occurring hardpan calcium

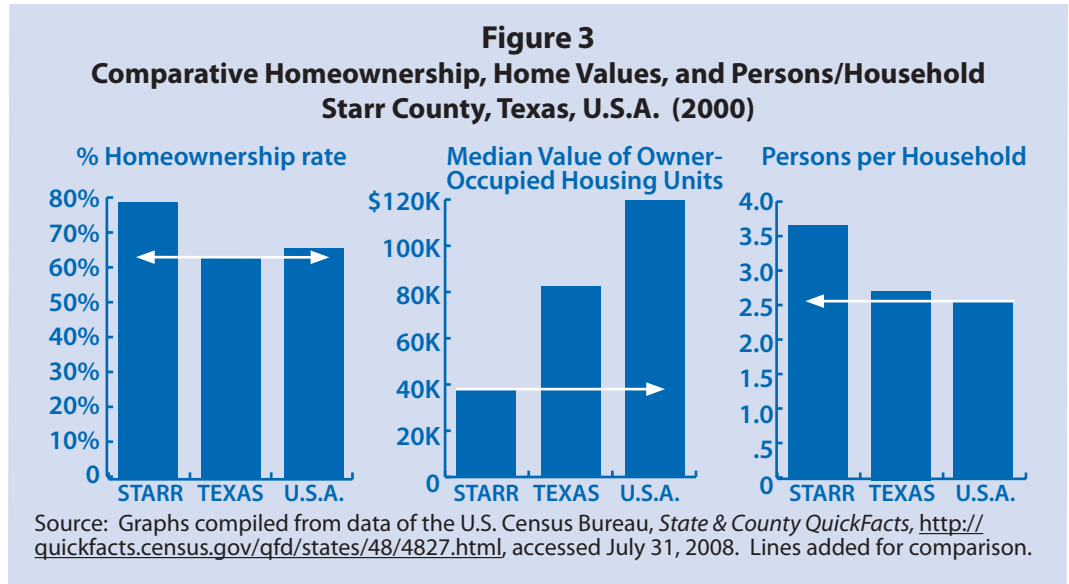
carbonate deposits) or other materials that prevent thorough drainage. During heavy rains, water collects because of inadequate drainage systems, elevation, and topography. These conditions, combined with inadequate septic tanks, often result in sewage pooling on the ground. The health risk is real (Figure 2). The Texas Department of Health data show that hepatitis A, salmonellosis, dysentery, cholera and other diseases occur at much higher rates in colonias than in Texas as a whole. Tuberculosis is also a common health threat, occurring almost twice as frequently along the border as in the rest of the state.

Securing potable water often presents an added challenge to colonia residents. Many must buy water by the bucket or drum to meet their daily needs or use wells that may be contaminated. Even when water lines and sewer systems are in place, many residents cannot access water and wastewater services because their homes do not meet county building codes.

HIGH RATE OF HOME OWNERSHIP

Perhaps counterintuitively, the home ownership rate in Starr County (79.5 percent) is higher than in the State of Texas (63.8 percent) and the nation (66.2 percent). At the same time, property values in the region are low, and the statistics

The loan program was designed with a "one size fits all" approach: a fixed amount of \$2,500, a 9 percent interest rate, and a two-year repayment period. This standardized loan package helps simplify the loan process while it effectively reduces both managing costs and financial complications...



shown for Starr County in Figure 3 are not limited to colonias but include McAllen and other communities of higher value. Thus, the value of a colonia dwelling is most likely even lower than the county average shown.

Part of the reason for the high rate of ownership is that in 1998, within these same colonias, the Community Resource Group (CRG) undertook the largest low-income land title project in Texas. Funded by the Ford Foundation, more than 7,000 residents in Starr County received clear and legal title to their most valuable asset: their homes. Building on the expertise developed through the land title work in Starr County, the CRG established Nuestra Casa, considered one of the largest home improvement/new home construction projects on the border.²

Colonia residents have very limited access to financial institutions for their housing needs. Though employed, a low-income, poorly educated individual is not considered credit-worthy from a traditional financial institution's point of view. Further, banks are reluctant to invest in these projects because owners of colonia dwellings typically hold little equity in their homes and make improvements in stages rather than all at once.

NUESTRA CASA

Amidst this stark reality, the Nuestra Casa financial program is starting to show positive results and merits attention. Nuestra Casa serves a vital financial need in this region that other financial institutions (including

state and federal agencies) do not address. Established in 2000, Nuestra Casa has provided over 1,000 home improvement loans of \$2,500 or less to colonia residents. As loans are repaid to the revolving fund, new loans are provided, and the program has loaned over \$2 million to date.

Members of the Department of Landscape Architecture and Urban Planning at Texas A&M conducted a study to assess the micro-credit approach to the revolving fund program in very low-income communities. The Nuestra Casa database was reviewed; interviews were conducted with staff members, both in Starr County and at CRG headquarters; a survey was performed among colonia residents who received (or were denied) loans from the program; and findings were complemented with focus group discussions and interviews with residents. The findings were optimistic:

- loans are placed at a high rate within this low-income group;
- default rates are low;
- the resulting home improvements provide widespread, positive impact on residents' quality of life.

LOAN PROGRAM CHARACTERISTICS

The loan program was designed with a "one size fits all" approach: a fixed amount of \$2,500, a 9 percent interest rate, and a two-year repayment period. This standardized loan package helps simplify the loan process while effectively reducing both managing

Delinquency rates are low and have decreased over time... One of the benefits of this program is that it increases "financial literacy" within the population and allows individuals to build personal credit history.

costs and financial complications (Table 1). There are no loan-related fees. Clients pay only the principal plus the interest, with no hidden costs such as closing or initiation fees. There is no direct penalty if a loan is not repaid. However, if the client makes timely payments in the first loan year, he or she qualifies for an increase in the loan amount up to \$3,500 at the same interest rate. There is no limit to the number of loans that may be requested by an individual.

Nuestra Casa is not dependent on any federal, state, or local agency or program. It is designed and solely managed by CRG staff (both in the colonias and in their office headquarters), and all decisions are made independently. This allows vital flexibility in terms of how the recipients are allowed to apply the loan principal.

For the most part, applicants to the program mirror local demographics, and the typical loan recipient is a Hispanic man or woman with an elementary school education who is employed full-time in an unstable, unskilled position. This population can be identified as the "working poor." Nearly half (48.1 percent) of Starr County residents changed from farm employment to nonfarm employment between 2000-2005, while the state rate of change was 3.5 percent and the national rate was 2.0 percent.³

To qualify for a Nuestra Casa loan, the client must own the property that is to be improved. A maximum debt-income ratio of less than 30 percent is required. But, due to the difficulty for this group to

obtain credit, 80 percent of loan recipients have a debt-income ratio of less than 10 percent. Thus, although income levels are low, recipients who qualify for these loans do not have extensive pre-existing financial obligations.

MEASURABLE RESULTS

Delinquency rates are low and have decreased over time: from 8 percent at the beginning of the program in 2000, to 3 percent in 2005. Part of the improvement is attributed to recipients becoming more experienced in the loan process itself. One of the benefits of this program is that it increases "financial literacy" within the population and allows individuals to build personal credit history. Within the demographic served, the advancement to financial literacy has occurred more quickly than was anticipated at the outset of the program.

But how does \$2 million affect these communities when it is distributed in more than 1,000 small loans? What is the economic impact of the Nuestra Casa loan program? The variety of improvements the loan recipients make with this limited amount of money is extraordinary, and local residents use tremendous creativity to maximize their investments. Most loans do not fund one project but several, and very often, the loans cover partial costs for several different (and perhaps ongoing) improvement projects for a single borrower. Further, when used for water or waste systems, public health risk is reduced with immeasurable economic benefit to the community.

Table 1
Nuestra Casa Loan Characteristics

FIRST LOAN	\$2,500 at 9% interest. No fees. 24 months at \$115/month and final payment of \$95
QUALIFICATIONS	<ul style="list-style-type: none"> • The borrower may not be involved in savings schemes • The borrower may not have co-signature liability for individual default • Legal home tenancy required • Project budget that includes materials and labor • Personal identification (social security card or other) • Proof of income • Proof of legal residency not required • Personal expenses total less than 40% of total income • Credit history
APPROVAL TIME	2 - 3 weeks
ADDITIONAL LOANS	\$3,500 at the same rate, after establishing timely payment history

Source: Nuestra Casa, 2008.

Also, a considerable proportion of clients have utilized more than one loan, and in these cases, the improvements become increasingly evident. An improvement that starts with one loan can be completed with a second or third loan, depending on the magnitude of the improvement. It is widely understood that broad increases in home improvement will increase home values, and not just of individual homes but across neighborhoods. Therefore, these home improvements provide real value to the region. But the benefits of these loans have been shown to reverberate through the community in other ways, as well.

While most homeowners perform some of the labor involved in their home improvement projects, in most cases they cannot do all the work alone. It was found that 89.6 percent of loan recipients said that they used two or more *unpaid* laborers, and that 70 percent of loan recipients hired one or more *paid* workers. Most of the labor was provided from within the recipient's colonia. Further, when loan recipients sought materials to perform their home improvements, 46.9 percent made purchases from providers located within the recipient's local colonia, while 43.1 percent used providers located in a nearby colonia or city.

LESSONS LEARNED & POLICY IMPLICATIONS

Providing the working poor with access to financial resources is a challenge for federal, state, and local policymakers. As we have shown, the Nuestra Casa micro-credit loan program has a greater impact than traditional programs. While some argue that small loans cannot provide a significant difference to low-income families, the Nuestra Casa program results refute this argument. In the colonia economic fabric, micro-credit will very likely have an impact on the local economy through job creation and on the capacity of local providers to deliver construction materials. As these economic linkages become increasingly established within these communities, the result is a more stable and sustainable local economy.

If the same amount of money is distributed among a large number of recipients, instead of being invested in the construction of only one new house, the impact is perceived

quite differently. With the construction of a single dwelling of higher value, the construction materials and labor are more likely to come from large companies instead of local merchants; fewer workers might be employed for the same amount of money; and fewer people receive a subsequent increase in home value. In fact, the increased value of new construction would almost certainly place the resulting residence out of reach of this community's demographic. The micro-loan program targets a vital need for a specific population that has few, if any, alternatives within its reach to finance home improvement.

In addition, more loans to more people in these low-income communities means that a larger populace is becoming "financially literate" by demonstrating the ability to repay loans in a timely manner. Even if program administrative costs increase due to the need to oversee a larger number of loans, in the long run the principal is recovered and the revolving funds can generate additional loans.

The micro-loan strategy, as an alternative or complement to other programs, seems to be an efficient way to approach the problem of affordable housing in the context of rural, highly concentrated, low-income populations such as these border colonias.

The complete report, "Nuestra Casa Home Improvement Loan Program: Evaluation of the Program in Starr County, Texas," is available online at www.crg.org/userfiles/Publications/NuestraCasaEvaluation.TexasA&M.Exec.Summary.pdf.

REFERENCES

1. Material and statistics throughout the entire section titled "Colonias: The Challenge," are taken from the Texas Secretary of State web site, www.sos.state.tx.us/border/colonias, accessed 7/31/08. Pages cited include "What is a Colonia," and "Colonias FAQ's."
2. Community Resource Group, Inc., *The Texas Colonia Story*, <http://www.crg.org/images/photos/successnuestrabirth.pdf>, accessed 7/31/08. The CRG is a multi-state rural development organization to provide opportunities for rural communities and low-income families to build assets and secure a better future. Headquartered in Fayetteville, Arkansas, the CRG is a non-profit organization that serves Alabama, Arkansas, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas.
3. U.S. Census Bureau, *State & County QuickFacts*, <http://quickfacts.census.gov/qfd/states/48/4827.html>, accessed 7/31/08. ◆

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Table 2 A CASE STUDY Salvador and Dora Garcia

After serving eight years in the U.S. Air Force, Salvador Garcia became an insurance salesman and a substitute teacher. His wife, Dora, worked as a health care provider for a local nursing service. They completed the purchase of a home lot in 1979 and began building their home a year later. After construction was completed, they discovered their property was located in a flood plain. For years they struggled with frequent localized flooding and water damage to their house. In August 2001, Salvador took out his first loan from Nuestra Casa for \$2,500. These funds paid to raise the foundation of their home, pulling it out of the waters that plagued the property.

Encouraged by this home improvement, Salvador took out a second loan to place tile on the new, raised floors. A third loan provided fencing to protect his children and their privacy. A fourth and fifth loan paid for new cabinetry. When Salvador applied for his sixth loan for roof repair and insulation, the approved application was celebrated as Nuestra Casa's 1000th loan. The success of the Nuestra Casa micro-loan program is reflected by the high rate of repeat borrowers.

Source: Abridged from CRG, Inc., *Hitting a Milestone, Helping a Family*, www.crg.org/userfiles/Success%20Stories/100thloansuccessstory.pdf.

Announcement

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