

# Texas Low Income Housing Information Service

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## Testimony of John Henneberger, co-director Texas Low Income Housing Information Service

### before the Senate Interim Committee on Housing

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Mr. Chairman, Committee Members

Thank you for inviting me to speak to you today.

My name is John Henneberger. I am the co-director of the Texas Low Income Housing Information Service. My organization is a nonprofit organization located in Austin.

The mission of my organization is to support low-income Texans' efforts to achieve the American dream of a decent, affordable home in a quality neighborhood. We believe that Texas' critical low income housing and community development needs can best be solved through a public-private partnership led by the initiative of low-income Texans and supported by government, the private sector, and the general public.

We carry out our mission by:

- researching and evaluating low-income housing and community development programs, needs and issues to discover solutions;
- providing information about low-income housing and community programs, needs and issues to promote public understanding and support; and
- organizing and empowering low-income people and communities to take the initiative to solve their housing and community development problems.

I read with interest the article in this week's *Brownsville Herald* in which Chairman Lucio observes that the housing situation on the border calls for special action. I agree completely.

**The Texas side of the Texas-Mexico border is in the midst of a growing, large scale, and broad-based housing crisis.**

This housing crisis is perhaps the worst in the nation considering the concentration the problem, the percentage of the local population experiencing the crisis and the depth of the poverty and housing problems along the border.

I said that the border housing crisis is large scale. Let me illustrate this with some local statistics. According to the U.S. Census the percentage of low income households with excessive cost burden (that is paying more than 30% of their income for rent) is 39.4% in Cameron County and 36.3% in Hidalgo County. This is more than one-third of the households in each county.

The census also shows that the number of very low income households (those earning less than 60% of area median family income) who pay more than one half of their income for housing is huge. In Cameron County 7,123 households and in Hidalgo County 10,131 households fall into this category that the U.S. Department of Housing and Urban Development (HUD) describes as “worst case need.”

This is truly a large scale housing crisis.

I also said that the border housing crisis is broad based. One remarkable characteristic of this crisis is that people across a number of income strata are effected. Let me provide some examples from a report the National Low Income Housing Coalition and my organization are planing to release soon.

According to HUD economists, the “Fair Market Rent” for a two bedroom apartment is \$510 in Cameron County and \$423 in Hidalgo County. HUD calculates the Fair Market Rent as the rent for a modest amenity apartment in the county based on a telephone survey of landlords. The HUD figure represents the 40th percentile of area rents, so it is somewhat below the average rent in the area.

The median renter income in Cameron County is \$17,046 and the median renter income in Hidalgo County is \$17,980. Based on HUD affordability guidelines which say that a household should expend no more than 30% of their gross income for rent, a family in Cameron County would need to earn at least \$20,400 to afford a two bedroom apartment at the HUD Fair Market Rent. A family in Hidalgo County would need to earn at least \$16,920 to afford the rent there.

This means that 61% of Cameron County residents and 47% of Hidalgo County residents who need a two bedroom apartment cannot afford to pay the rent under HUD guidelines. This is an illustration of just how broad-based the effects of the border housing crisis is.

We calculated the hourly wage that a household member would need to earn at a full time job to be able to afford the modest two bedroom apartments we are talking about. A wage earner in Cameron County would have to earn \$9.81 per hour and a Hidalgo County wage earner would have to earn \$8.13 per hour. I don't have to tell you that full time jobs that pay these type of wages are in short supply on the border.

**I see four main causes to the border housing crisis: population growth, demographic characteristics of the population, the extent and depth of poverty and high housing costs.**

Population growth on the border has been nothing short of amazing. The U.S. Census reports that over the decade from 1980 to 1990 Brownsville had a 25.5% increase in population. Mission had a 59% increase. Laredo (now officially the poorest city in the nation) had a 34% increase in population and Edinburg had a 24% increase. Even in regions with a good economy and full employment it would be difficult to create enough new housing to accommodate such dramatic increases in population.

The demographics of the population are feeding the crisis. The age distribution along the border is very heavily weighted to young people both in their child bearing and pre-child bearing years. This means a large natural population increase is both ongoing and can be expected to be long term. The overwhelming percentage of households are two parent families which means a large number of children will be born into such families.

If the population growth of the border is amazing then the extent and depth of poverty is dumfounding. The poverty rate in Cameron County is 40%. The poverty rate in Hidalgo County is 42%. The poverty rate for the state as a whole is 18%. Poverty is the largest contributor to the border's housing crisis.

Housing costs are the final component contributing to the crisis. From 1980 to 1990 Cameron County experienced a 42% growth in the number of households paying unaffordable housing costs. Hidalgo County experienced an incredible 67% increase over

the same period. From these figures you can see that the problem just keeps getting worse and we are losing ground rapidly.

To make matters worse, **the housing problem is self compounding**. Each year we fail to address the problem the cost to solve the problem increases. The public's cost to fix slum housing conditions has proven to be greater than the cost of providing decent housing and neighborhoods in the first place by at least a factor of three to one. Consider the example of the costs incurred by the City of San Antonio in addressing conditions in the barrios of San Antonio's west side. Decades of local and federal spending have corrected only a small portion of the housing and community problems of this neighborhood. Forty and fifty years ago this area developed in the same manner as many of the colonias of the border are developing today. Both San Antonio and the border colonias developed as a response to the lack of affordable housing. Fixing both will cost hundreds of millions in tax dollars. In short, our failure to provide affordable housing today costs us far more tomorrow.

Already several border cities are being choked by a ring of suburban slum housing we call colonias. This will severely impact growth opportunities for these cities in coming decades.

**The State of Texas must take the lead to solve this problem.** No one else is going to do it. HUD is dead in the water from the standpoint of being able to initiate new programs to deal with problems like those of the border. The constraints of the balanced budget has stopped all incremental increases in housing subsidies such as Section 8 rent vouchers and certificates and public housing.. Secretary Cisneros tried and failed to convince Congress to appropriate the modest sum of \$200 million for the colonias. New initiatives of any size are highly unlikely to be forthcoming from HUD.

The combination of growth and poverty means that local governments are being pressed to the maximum to deliver essential city services and meet growing educational and health needs. The capital intensive demands of housing programs are unlikely to be addressed by border cities in the foreseeable future.

**The border housing crisis is a regional, not a local issue.** The problem is not confined to Brownsville or Laredo. The crisis is border wide. The state is the only entity capable of developing the necessary regional response.

Fortunately there is good news to go with these dire problems. The border housing crisis can be solved. **During the past three legislative sessions the Texas Legislature has put in place much the prerequisite groundwork to solve the housing crisis.**

Laws are in place to stop the proliferation of substandard colonias. Representative Olivera and the border Senators joined together to give owner-builders in colonias important legal rights in their contractual relationships with subdivision developers. The EDAP program is bringing water, albeit far too slowly, to some colonias. Most importantly the Legislature established and funded colonia self-help centers to help colonia residents build decent homes and communities instead of slum housing.

These essential provisions of regulation, consumer protection, infrastructure, education and support are in place now and can be used as a foundation for building a solution to the crisis.

**There is more good news in the nature of the housing conditions of border families.** While conditions are often bad, the rate of homeownership of border residents is extraordinarily high. Less than 18% of the houses in colonias are rental housing. Families who own their homes have a personal stake in improving their physical living conditions. Nowhere except on a few Indian reservations is there such a low income population who have achieved such a high rate of homeownership.

Further good news is that even with the crippling poverty, the **family units of low income border residents have remained intact.** In the colonias only 7.5% of the households are single parent, female headed. Statewide the rate is 21.1%. This intact family unit is a significant asset building base which can help to address the physical and economic problems of building and affording decent housing.

Most importantly, **the optimism and self-help spirit of low income border residents is the greatest resource to solve problems.** In a time of little new money the greatest underutilized resource is the voluntary labor potential of low income border residents.

**The border has become an incubator for the state's most innovative and effective model housing approaches.** The highly innovative financing approaches of the Brownsville CDC, the incredibly successful self-help housing programs of Proyecto Azteca and Lower Valley Housing Corporation and the provision of elderly housing through Amigos del Valle are acknowledged around the country as among the best nonprofit housing initiatives.

Unfortunately the number of units these organizations have been able to produce, given their current levels of funding, are not coming close to keeping pace with the increase of poor families on the border. According to the LBJ School of Public Affairs at UT Austin, the number of people living in households paying unaffordable housing costs in border counties will increase to 715,308 by the year 2010.

Based on these projected increases in families unable to afford housing, the State of Texas needs to help 3,000 border families afford housing each year simply to keep the number of families living in unaffordable housing from increasing. Assuming the average cost of providing this assistance is \$10,000 per family, this means providing \$30 million per year in housing assistance to the border just to prevent the situation from getting any worse.

While the Legislature created colonia self-help housing centers for five border counties, no funds were provided to provide mortgages to help families pay for the materials to build their own homes. This is a serious impediment to the centers' efficiency.

**There has been nothing like today's housing crisis on the border since the post World War II housing crisis faced by the country as a whole.** In the 1940's returning veterans swamped our nation's housing market. The approach the federal government took to working our way out of that crisis is instructive in dealing with the border crisis.

After much confusion and inaction, the post World War II housing crisis was finally solved through creating a large supply of housing purchase loans based on qualifying terms that most veterans could meet. This is the centerpiece of the solution to the border housing crisis which I advocate.

Consider the plight of border homebuyers. They are suffering under a shortage of available credit, loan programs which they cannot qualify for and high interest rates. The

result is they often turn to a colonia developer to purchase a lot on a contract for deed at high interest rates. Their lack of equity and security in the land and the high cost of the lot payments forces them to use all of their financial resources just to make the lot payment. The families must move onto their lot and live in any form of shelter they can scrape together. To build their homes they either pay cash for a few building materials at a time or turn to finance companies where they take out a series of \$400 signature loans at 85%+ interest rates.

The absence of reasonable credit for lot finance and building materials purchase for families who want to build their home with their own labor either prevents them from building a home or creates for those who do so great financial hardship.

The State of Texas provides more than \$100 million of mortgage loans to first time homebuyers all across Texas annually. **None of the state's mortgage loans are made to families in the colonias who are building their own homes.** We must redesign our state mortgage loan programs to prioritize these border families.

The Texas Department of Housing and Community Affairs, in the wake of failing to carry out the \$40 million colonia contract for deed refinance program as directed by the Legislature, recently instead attempted a FHA Title I Housing rehabilitation loan program targeted at lower income families. TDHCA attempted to market these FHA housing rehabilitation loans to colonia residents. The results have been a disappointment and can teach us a valuable lesson.

There is a tremendous demand for housing rehabilitation loans among colonia residents. The problem is that despite aggressive marketing of the loans by several colonia self-help centers, only a handful of colonia residents have qualified for the FHA loans. One self-help center reported that out of more than thirty full loan applications, only two families actually qualified for the loans. This is both a disappointment to the families applying for a loan and a waste of resources for the self-help center.

The loan qualification criteria for the FHA loan program was designed for moderate income urban families, living in cities, who plan to hire a private contractor to do repairs to their essentially good condition homes. Colonia residents are rural residents, living in subdivisions which are unlike urban neighborhoods. They generally plan to do repairs to

their homes with their own labor or through the use of a number of small subcontractors and they begin with a home that is often massively substandard.

Financially colonia residents are vastly different from the typical FHA borrower. They most often have no credit history. Very few potential colonia borrowers have large enough incomes which allow them to meet the “debt to income ratio” required to qualify for an FHA loan.

**The TDHCA FHA program has met with problems not because housing rehabilitation loans were not needed but because the department failed to accurately assess the loan market it was trying to serve.**

**We know, based on the extensive experience of nonprofit groups working on the border that low income border residents can be good credit risks** provided the entity seeking to extend the credit understands the potential borrowers. The banks who comprise the multi-bank CDC of Brownsville report that out of more than 500 home loans they have made, only two have become seriously delinquent. This is a remarkable record by any lending standard. We should also be realistic and understand that as the state begins to lend to families at or near the poverty level, there will be delinquencies and defaults. The goal is to set up a loan program to minimize these problems and to have in place a local mechanism to work with families who have financial difficulties repaying their loans.

The critical secrets to successful low income lending is pre-purchase homebuyer education, the establishment of a personal relationship with the borrower at the time of loan qualification and the extension of that relationship through the loan servicing period. It appears to me that TDHCA has not learned these rules.

The self-help centers are in place and capable of doing quality pre-purchase homebuyer counseling and education. But TDHCA does not require all of the centers to perform these functions. TDHCA has not generally permitted local entities such as the self help centers to originate loans, but instead tries to qualify people through it’s Austin offices, using local groups like the self help centers to simply fill out the forms. The borrower has no personal relationship with some remote state agency. They do have a personal relationship with the self-help centers.

TDHCA has decided that it will service the loans through its non-profit Austin-based subsidiary, the Texas State Affordable Housing Corporation (TSAHC). During the past Legislative session TDHCA assured the Legislature in its “Confidential Business Plan” that TSAHC could service loans through TSAHC for an average of \$4.17 per month while making a profit for the state. The experience of TSAHC servicing loans in the El Cenizo colonia in Webb County should have taught TDHCA that it is neither effective nor cost efficient in serving loans.

In El Cenizo TSAHC has been charging \$38 dollars per loan each month to service loans which pay an average of \$85 per month. TSAHC’s loan serving costs are eating up 45% of the loan payments colonia residents make. During some months that TSAHC was servicing these loans the delinquency rate reached 66%. **The state has proven itself to be expensive and inefficient in servicing loans in the colonias.**

One non-profit organization doing self-help housing on the border, Lower Valley Housing Corporation, is currently paid between \$3.92 and \$6.67 per month by private banks to service similar loans. Delinquencies in the nonprofit’s loan pool are very low.

**These critical functions: prepurchase financial and homeownership counseling, loan origination and loan servicing must be operated through locally based institutions such as the self-help centers if the state wants to succeed in low income lending.**

I do not pretend to have all the answers to solve the border housing crisis. I do believe there are some preliminary steps the State of Texas must take to begin to address the problems. Based on the experience we gain from taking these steps the pathway to the ultimate solution to the housing crisis on the border will become clear.

**Recommendations:**

1. Redesign and prioritize existing state mortgage lending programs and federal block grants to provide credit to families building self-help housing in conjunction with the colonia self-help centers.
2. Provide \$30 million needed to assist 3,000 very low income border families per year to obtain decent housing.

3. Design border housing programs to leverage the border's greatest untapped housing resource — self-help labor.
4. Coordinate all state housing programs and state housing initiatives locally through self-help centers and city housing departments.
5. Provide homebuyer education, loan qualification, loan origination, and loan servicing through local organizations who best understand and relate to local borrowers.