Special Attention of:
CPD Division Directors,
HOME & RHED Grantees
In Texas, California,
Arizona and New Mexico

Notice CPD-03-10

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Cross References:

Subject: Use of HUD Resources to Assist Colonias

PURPOSE

The purpose of this Notice is to provide information and guidance to State and Entitlement Community Development Block Grant (CDBG) grantees and subrecipients, Rural Housing and Economic Development (RHED) grantees, HOME participating jurisdictions and subrecipients in the four border states on best practices in distributing these funds to communities with substandard living conditions along the U.S./Mexico border, commonly known as "*colonias*". The Notice focuses on five issues: Contract for Deed conversion, alternative building technologies, needed infrastructure, individual development accounts and Self-Help/One Stop service centers.

BACKGROUND

The Department of Housing and Urban Development defines a "*colonia*" as any identifiable community, outside of a Metropolitan Statistical Area with a population exceeding one million, that is within 150 miles of the U.S.-Mexico border in Arizona, California, New Mexico, and Texas and that has a lack of a potable water supply, inadequate sewage systems, and a shortage of decent, safe and sanitary housing. While all of the Southwest border states have *colonias* present to varying degrees, Texas has by far the greatest number of *colonias* and largest *colonia* population; and thus the largest amount of resources, data and historical information.

HUD's primary tools for helping these communities in the quest for safe, sanitary housing are the Community Development Block Grant (CDBG) and HOME programs. Due to the geographic isolation of the vast majority of *colonias*, almost all CDBG funds spent in *colonias* are administered through the State CDBG program. While these funds are primarily spent in non-entitlement areas, State CDBG program regulations also allow spending in metropolitan areas of less than one million people, such as Hidalgo County, Texas. Although States are afforded maximum feasible deference in choosing which projects and grantees to fund with CDBG dollars, the Cranston-Gonzalez National Affordable Housing Act (NAHA) established the *Colonia* Set-Aside, which mandated that Texas, New Mexico, California and Arizona spend up to 10% of their FY 1991 CDBG grant on projects that benefit *colonias*. For FY 1992 through FY 1994, the statute authorized HUD, in consultation with representatives of the *colonias*, to determine an appropriate set-aside percentage, not exceeding 10 percent, for each of the four states. The set-aside was voluntary in FY 1995; it was required by the HUD Appropriations Act in FY 1996, and made permanent by the 1997 HUD Appropriations Act. Since 1997, HUD has established the *Colonias* Set-Aside for Texas, New Mexico and Arizona at 10%, while the set-aside for California has fluctuated between two and five percent during those years. To learn more about the *Colonias* Set-Aside, visit HUD's website at: **http://www.hud.gov/offices/cpd/communitydevelopment/programs/colonias/cdbgcolonias.cfm**

Over the past ten years, HUD has expended a significant amount of resources on "ad hoc" efforts to provide programs and services to *colonias*, with generally positive results. The Department remains dedicated to lessening the poverty and distressed living conditions of these communities by improving the utilization of existing resources, and by coordinating the efforts of the various programs within HUD that work with *colonias*. For example, in February 2001, the Department established the Task Force on the Southwest Border Region, *Colonias* and Migrant/Farmworker Communities—comprised of representatives from each of the major HUD organizations—to facilitate this goal.

With the recommendations of the Task Force in mind, this Notice has been issued in order to provide guidance on the use of CDBG, HOME and other funds in five areas that promise the most efficient use of resources:

1) Contract for Deed Conversion Programs
2) Alternative Building Technologies
3) Needed Infrastructure
4) Individual Development Accounts
5) Self-Help and One-Stop Services Centers

SECTION 1: CONTRACT FOR DEED CONVERSION

According to the Texas Secretary of State's Office,, most home financing within the *colonias* in Texas has occurred through the contract for deed financing mechanism, also known as a land contract or an installment land contract. In addition, anecdotal evidence suggests that a significant amount of colonia home financing within the other Southwest border states use this same financing mechanism, although less is known about non-traditional lending in Arizona, New Mexico and California. A contract for deed is similar to a mortgage loan in that it allows a buyer to purchase a parcel of land from a seller. Unlike a mortgage loan, however, the buyer does not receive title to the land until the full price, with interest, has been paid.

The seeming advantage of contract for deed financing is that the buyer is able to enter into a contract to purchase the land even if he or she possesses bad or insufficient credit and is unable to provide a substantial downpayment. This type of financing also enables a seller to face little risk in financing the purchase, since traditionally these contracts were not recorded with the county clerk. If the buyer fell behind in making payments, the seller could repossess the land within 45 days without going through the normal foreclosure process, and could even claim any improvements made on the property.

In an attempt to address the problem with contracts for deed arrangements in the *colonias*, the State of Texas has made great strides in recent years to protect the interest of *colonia* residents by enacting legislation that has made contract for deed financing less desirable for unscrupulous developers. Through the state's *Colonia* Fair Land Sales Act of 1995, sellers are required to record and counties are required to keep track of contracts for deed, thus making it more difficult for sellers to repossess land for only one or two missed payments. This legislation also requires sellers to provide a statement of available services, such as water, sewer, and other infrastructure, ending the practice whereby a developer would attest to having services available that actually were not present at the time the contract was signed, or promising services which they never intended to provide. Finally, this legislation required sellers to provide an annual statement of the buyer's account.

Moreover, to address some of the more problematic contracts for deed executed before 1995, the Texas Department of Housing and Community Affairs (TDHCA), Office of *Colonia* Initiatives has spent over $7 million in HOME money and committed $9 million overall, for the conversion of hundreds of contracts for deed. This initiative will be discussed in more detail below, under "Ways in which CDBG and HOME can be used."

The statutory instruments for conveyances and mortgages of real property in the Southwest border states, among others, include grant deed, warranty deed, trust deed and quitclaim deed. The latter perhaps seems to be more problematic than the former types for California and New Mexico *colonias.* The quitclaim deed is a deed by which the grantor transfers only the interest, or the amount of ownership in the property described in the quitclaim, the grantor has at the time of conveyance. This type of deed has no expressed or implied warranty that the grantor owns the property or any interest in it. In essence, a quitclaim deed says "I am conveying all the interest that I have in the property described in this quitclaim."

Regardless of the type of deed arrangement established throughout the *colonias*, there are clear problems in the inability of residents to establish clear titles or declare legal ownership of real property. Lack of a marketable title can inhibit buyers from participating in lower-cost, government-supported financing programs. Therefore, it is important to identify the particular financing problems in each state to establish an adequate remedy for *colonia* residents to achieve full legal homeownership.

Ways in which CDBG and HOME can be used

The State of Texas has made much use of the HOME program for contract for deed conversions since 1998. As of last year, the Office of *Colonia* Initiatives (OCI) had converted more than 350 contracts for deed into lower interest mortgages, using HOME funds and money from a state bond initiative passed in 1998. OCI accomplishes these conversions with the help of units of general local government (UGLGs), public housing authorities, nonprofits and for-profit entities, which gather eligible applicants to participate in the program and provide completed packets to OCI for review. For an applicant who is selected for conversion, OCI pays the remainder of his or her contract for deed to the seller, and then becomes the mortgagee to the loan, which may be 0-4% interest for up to 10 years. In addition, the applicant may be given a deferred forgivable loan for up to $15,000 for costs associated with bringing the unit up to Colonia Housing Standards (CHS). These standards were set by HUD in 1996 in response to a plea from the State of Texas to make HOME funds more accessible to colonias. Normally, HOME regulations require that housing which is assisted with HOME funds at a minimum must meet Section 8 housing quality standards. Due to the extremely poor condition of most housing stock in the colonias, HUD approved the CHS in order to make HOME funds stretch further.

While the HOME program has been widely used in Texas, states have made little use of CDBG funds for the purpose of contract for deed conversion. In 2001, OCI spent part of their CDBG Technical Assistance set-aside funds to host three capacity-building seminars to provide mortgage conversion education for *colonia* residents in Hidalgo, El Paso, Webb and Starr counties. While Texas has spent almost $14 million since 1996 to fund five *Colonia* Self-Help Centers—which are designed to provide on-site technical assistance to *colonia* residents on many issues, including contract for deed conversion—states have not spent CDBG funds on the actual conversion of contracts for deed or the activities required for conversion, such as surveying, re-platting or legal services.

A large number of conversions are delayed by the fact that surveys are often poorly performed or non-existent and plats are often not recorded with the county clerk's office. Surveying and platting are required by virtually all lending institutions before a loan can be processed, which makes this step one of vital importance. The provision of legal services to facilitate contract for deed conversions to traditional mortgages is an eligible Public Service activity in the CDBG program.

A colonia advocacy group that can serve as a success model is Community Resource Group, Inc., which has received two HUD grants that are making a difference in the lives of 1,000 colonia residents of Starr County, Texas. CRG, Inc. has leveraged additional funds from USDA, TDHCA and other national and local foundations. The group has provided clear marketable titles to 2,392 lots for colonia families. CRG, Inc. is the court-appointed receiver in the largest title regularization efforts in the country. The HUD grants were funded through the Office of Rural Housing and Economic Development (RHED), of which more is discussed in Section II.

SECTION II- ALTERNATIVE BUILDING TECHNOLOGIES

Overall, housing in *colonia* settlements can pose striking contrasts and is often difficult to characterize because it is so diverse. Many of the housing units in newer *colonia* areas are primarily substandard structures built by residents using available materials such as cardboard, shells of old buses, cinder block or wood. In contrast, housing conditions in some older colonias tend to be in better condition because residents have had more time to improve them, and thus are often indistinguishable from *non-colonia* neighborhoods.

There is an ever-growing need for affordable housing in today's *colonias*. In June 2000, a survey among 96 *colonias* in six border counties, sponsored by the Texas Department of Health, indicated that almost half of the *colonia* households in Texas make less than $834 a month. Compounding the problem is the fact that the border population in some counties is growing at nearly double the state's average, far outstripping the availability of safe, affordable homes.

Grantees can use CDBG to fund a variety of housing projects, ranging from minor rehabilitation of an existing home to new construction of housing (if carried out by a nonprofit organization serving the development needs of the communities in nonentitlement areas). In 1980, the Housing and Community Development Act, as amended, was amended to emphasize the program's role in improving energy efficiency by expanding categories of eligibility to include design features and improvements that promote energy efficiency, public facilities such as utilities, rehabilitation of buildings which promote energy efficiency, energy conservation as a public service and grants to neighborhood-based nonprofit organizations to carry out energy conservation.

Self-help projects, such as those organized by the non-profit organization Proyecto Azteca in Texas and funded by the HOME program, have been successful in building affordable housing. Since residents provide their own labor, project organizers can afford to use alternative building technologies that are more labor-intensive but use less expensive materials than traditional construction techniques. For instance, modern contractors shy away from using "Cob" construction (described in detail below) because it is very labor-intensive and has a long construction time. Yet, in the U.S./Mexico border region, where labor can be self-provided, dry seasons are well defined and clay soil is plentiful, the "Cob" construction technique seems particularly appropriate.

The HOME program supports the Affordable Sustainability Technical Assistance (ASTA) web site (**http://www.homeasta.org/**), which serves the needs of the affordable housing developer by providing step-by-step recommendations on how to make single-family home construction projects more sustainable in the areas of resource and energy use. This web site provides an overview of the principles of sustainable design, case studies on their application and links to other alternative building technologies, including cob and straw-bale construction.

Another HUD resource for states seeking information on alternative building technologies is the website of the "Partnership for Advancing Technology in Housing", also known as PATH. Its six goals are: increased housing affordability; lower construction costs; reduced monthly cost; fewer construction injuries; lower disaster losses; and accelerated development and increased market acceptance of new housing technologies. PATH is administered by HUD through the Office of Policy Development and Research (PD&R), and includes as its members: major housing and research agencies in the Federal government; leaders in the manufacture of homebuilding products; innovators in the homebuilding and contracting industry; researchers from diverse backgrounds; and officials from financial, regulatory and insurance groups. PATH looks at the issues and institutional problems related to technology development in the housing industry, and strives for viable cost-effective solutions.

Listed below are just a few of the technologies researched by PATH that may be of use in *colonia* housing projects. Some of these construction methods do not meet the building codes in every state; however, it is always possible that such codes might be changed or waived to accommodate the need for safe, decent and affordable housing in these areas. To learn more, go to the PATH website at: **http://www.pathnet.org/**

Cob Construction

The word "cob" comes from an English root meaning *a lump or rounded mass*. Cob buildings utilize prepared earth shaped into lumps to be applied by hand. Placed atop a sturdy foundation, cob dries to become a sound, stone-like, load-bearing assembly. It has been used worldwide since at least the 11^{th} century as an inexpensive, abundant homebuilding approach. Developed societies have tended to abandon cob construction due to its being labor intensive and having long construction times. However, because cob can produce a more natural, solidly built structure than conventional wood framing, there is a renewed interest in this form of construction.

Cob construction allows owners to build their own homes at little cost. Cob structures are solid, acoustically sound, and capable of maintaining a comfortable interior temperature even during the drastic temperature and humidity swings that occur along the border. Cob may be fabricated without need for machinery, reducing construction costs in the U.S. to between $7 and $15 per square foot wall area (not including labor).

As noted earlier, cob construction may not meet local building codes. Currently, the only building-code-approved location for load-bearing cob in the U.S. is New Mexico. Regulators in some states do, however, approve such applications with certification from an engineer or architect. With heightened interest in the search for affordable building technologies, it is likely that more homebuilders will utilize this technique.

Rammed Earth Construction
This type of wall construction turns soil into sedimentary rock in minutes, using high pressures and heavy equipment. Raw material consisting of 70 percent sand and 30 percent clay is placed into concrete forming panels fitted with a steel frame and special plywood inset. Material is placed in the form by lifts, which are the masonry equivalent of courses. Eight inches of material is loaded into the forms and subsequently compressed with pneumatic tampers to five inches in height. Another lift is placed atop the first lift, and the process is repeated until the walls are about six inches from the top of the forms. The forms are removed immediately after a wall section has been rammed to begin the curing process.

Rammed earth-constructed walls are well suited to the Southwestern United States due to their insulating effect. Buildings are slower to heat up in the summer sun, and retain heat because the thermal mass is very slow to give up its heat. The real efficiency lies not in the insulation ability, but in the structure's ability to reduce interior temperature swings.

Straw-Bale Construction
Straw-bale construction is not a new technology; it has been around in the U.S. since the turn of the century. Straw is a cheap, renewable resource that provides excellent thermal insulation, is easy to use as a building material, and allows for a great deal of flexibility and creativity for the designer and builder. A typical 2,000 square feet house requires about 300 medium sized bales, which cost only $2-$4 per bale.

Straw bales are laid end to end with overlapping joints, just like bricks. The roof is placed on the straw walls, which are compressed by the weight (thus improving the insulating ability). Wire mesh and stucco are then applied, making the wall weatherproof, fire-resistant and pest-free.

While it's not intended for all areas, straw bale construction is a viable alternative method especially in dry climates. Straw bale construction can also help cut energy consumption costs, by as much as 30% compared to traditional building materials.

New Mexico, where straw bale construction is fairly common, is among one of the very few states that have granted approval for this type of construction. Generally, where approval has been given, it has been for the in-fill type of construction—where a frame is incorporated into the structure to carry the loads and the bales are used to fill in between the structural members—and not the load-bearing type. Many local authorities are dealing with applications for building straw-bale homes on a case-by-case basis.

Straw-Based Building Products

Since straw is largely a by-product of food crops, with 200 million tons being produced each year, homebuilding products made from it are cheaper than wood and more environmentally friendly. At the factory, the straw is transformed into a wood-like product by compressing it under high temperatures that bond the straw fibers together. A high-quality finish can be applied to the outside of the panel to provide a surface fit for exposed applications. To create a stronger, structural panel, the straw board can be sandwiched between two oriented strand boards. Straw boards are resistant to fire, termites and water, and are available in sizes ranging from 2 inches to 4 inches in thickness. In addition, straw boards are usually in compliance with local building codes.

HUD's Office of Policy Development and Research is continuing to advance efforts to promote alternative building technologies. Currently, PD&R is working on two research projects; the first will examine traditional construction techniques in the *colonias* to test their energy performance and construction durability; and the second project will be to develop a guidebook of basic construction techniques, including straw bale, for housing developers in the *colonias*. In addition, a PATH Demonstration project is currently being developed with the Brownsville Community Development Corporation (Texas) to design and construct, over a period of time, a number of homes that will meet local building codes, are energy efficient and are cost effective.

Additional Funding Sources for Alternative Building Technologies

HUD's *Rural Housing and Economic Development (RHED)* program awards funds competitively, on an annual basis, through a selection process conducted by HUD in consultation with the U.S. Department of Agriculture. Among the list of eligible activities is the application of innovative construction methods encouraging building design, which reflects terrain, climate and availability of indigenous materials. In FY 2003 RHED awarded grants totaling $25 million to fund capacity building and support for innovative rural housing and economic development. The House and Senate Appropriation Committees have recommended funding at the same level for FY 2004. For more information, contact the Office of RHED at 202-708-2035.

The Housing Opportunities for Persons with AIDS (HOPWA) program is another tool for helping colonias in the quest for safe, sanitary housing. The HOPWA program was created in 1992 to provide states and localities with the resources and incentives to devise long-term comprehensive strategies for meeting the housing and supportive services needs of low-income persons with HIV/AIDS and their families. Ninety percent of HOPWA's annual appropriation dollars are distributed to states and localities under a formula that is based on AIDS surveillance information from the Centers for Disease Control and Prevention. For 2003 the HOPWA appropriation totaled over $290 million dollars. Ten percent of HOPWA funds are made available each year through a national competition.

The U.S. Department of Agriculture, Rural Housing Service (RHS) also provides the Rural Housing Demonstration Program, a loan program for low-income borrowers to purchase innovative housing units and systems that do not meet existing published standards, rules, regulations or policies. The intended effect is to increase the availability of affordable rural housing for low-income families through innovative designs and systems. Funding made available for this program in FY 2003 totaled $1million. RHS anticipates the availability of $1 million for new demonstration projects for FY 2004. Alternative building technologies can also be financed through the RHS *502 Mutual Self Help Housing* program (more information on which is provided in the Self-Help Housing section). However, houses constructed through this program must meet the voluntary national building code, adopted by states, and meet RHS thermal and site standards. For further information about these programs, contact RHS at 202-720-1474 or visit their web site at:
http://www.hud.gov/offices/cpd/economicdevelopment/programs/rhed/index.cfm

In addition, the U.S. Department of Energy (DOE) Weatherization Program can be a source of funding for reducing energy and other operating costs. While the services funded through the Weatherization program are delivered by local agencies, the funding is distributed through state governments. For more information on Weatherization assistance, call DOE at 1-800-DOE-3732 or visit their web site at: **http://www.eere.energy.gov/weatherization/**.

SECTION III- NEEDED INFRASTRUCTURE

Inadequate or non-existent infrastructure continues to be a problem for the *colonias*. Among the most pressing infrastructure needs are the availability and access to safe, clean drinking water, sanitary sewage treatment systems, better roads and adequate drainage.

A study conducted by the New Mexico State University, Center for Latin American and Border Studies, concluded that while 92% of New Mexico's *colonias* have drinking water systems, most tend to be old and in need of repair and/or upgrade. The systems also lack sufficient pressure for fire-fighting purposes.

Many c*olonia* residents are forced to buy water by buckets or drums or use potentially contaminated wells. As of June 2000, only 54 percent of Texas *colonia* residents surveyed by the Texas Department of Health had sewer service and more than 50 percent drank water from sources other than taps. Among those residents not connected to a sewer system, septic tanks and cesspools are the only viable option, and these systems are often improperly installed. The poor quality of colonia roads, which are often unpaved and covered with caliche—a hard soil layer cemented by calcium carbonate—or other materials that inhibit drainage, makes the situation worse. During heavy rains, the water collects due to poor drainage, backs up into the improperly installed septic systems and leaves raw sewage to pool on the ground or seep into the water supply.

Providing clean, safe water along the border is also hindered by the lack of sufficient wastewater treatment facilities. Border communities often discharge untreated water into rivers and canals. According to a 1992 EPA report, 27 million gallons of untreated wastewater is discharged into the Rio Grande each day just in the Laredo/Nuevo Laredo area alone. Residents are forced to buy water in 50-gallon drums because the wells are too polluted with sewage run-off.

A 1995 study by the Texas Water Development Board (TWDB) estimated that there are 428 *colonias* with about 81,000 people in need of potable water facilities, and 1,195 *colonias* with about 232,000 people in need of wastewater treatment facilities throughout the State of Texas. In 1996, a TWDB survey projected a conservative estimate of $776.7 million needed for bringing water and wastewater service to its economically distressed areas, which are primarily along the border. This estimate does not include the cost of individual hookups, indoor plumbing, or water supply acquisition.

Even when *colonias* have water and wastewater lines nearby, many residents cannot afford the $700-$800 hookup fee and cannot qualify for the hook-up unless it is part of the overall rehabilitation of their homes. For instance, even though HUD allows the State of Texas to meet the less stringent Colonia Housing Standards for rehabilitation of homes, all of those standards must still be met for a project to satisfy HOME funding requirements. While this mandate makes sense within the context of HOME's mission of providing safe, decent and affordable housing, it often delays the provision of water and sewer services to *colonia* residents because it forces jurisdictions to spend limited resources to completely rehabilitate one house at a time rather than provide more limited assistance to a greater number of houses. The CDBG program, however, can serve as a complement to the HOME program since hook-up fees can be funded through CDBG without accompanying rehabilitation. Grantees should bear these facts in mind when developing their Consolidated Plans and Method of Distribution.

It is also important to acknowledge that the challenges faced by states and local governments go beyond allocating money for water systems. First, there are some limitations to making large financial investments to provide water and wastewater hookups for housing structures that are economically unfeasible to rehabilitate. Second, even when water systems are made available, some *colonia* residents may still not be able to afford the forthcoming utility bills on an ongoing basis. Finally, some homeowners may fear that increased requirements for connections to services could potentially drive up their housing cost, leaving them without an affordable housing option. These challenges are not only very real, but also difficult to overcome. Nevertheless, progress has been made to improve living conditions for *colonia* residents.

States have recognized that in order to improve living conditions throughout the *colonias*, they must first start by making available basic water and wastewater service to residents. As shown below, over the past several years most states have spent the majority of their CDBG *Colonias* Set-Aside funding on water, sewer and street infrastructure improvements.

State	Water/Sewer/Street CDBG Expenditures*	Total Colonias CDBG Expenditures	Percentage Water/Sewer/ Street
Arizona	$3,078,168	$9,557,232	32.2%
California	$12,616,000	$13,216,000	95.5%
New Mexico	$13,375,683	$13,650,683	98.0%
Texas	$60,821,374	$88,738,542	68.5%

*Between 1991 and 2001, except for Arizona (1997-2001)

In addition to CDBG grant funding, eligible public entities may utilize HUD's Section 108 loan guarantee program to finance a wide range of activities in *colonia* areas. Section 108 is the loan guarantee provision of the CDBG program that enables entitlement public entities to borrow up to 5 times their most recent CDBG allocation and nonentitlement public entities, i.e. UGLGs, to borrow (in the aggregate) up to 5 times the most recent CDBG allocation for the applicable state.

In addition to the standard range of economic development, housing and infrastructure activities allowable under the Section 108 program, Congress enacted in 1994 a specific eligibility provision applicable to *colonias* to authorize the acquisition, construction, reconstruction, rehabilitation or installation of public works and site improvements that serve *colonias*. Listed below are the maximum Section 108 borrowing authority levels for each of the four border states based on FY 2003 CDBG allocations:

State	**FY 2003 CDBG**		**Max. Section 108 Authority**
Arizona	$ $13,637,000	x 5 =	$ $68,185,000
California	$ $50,828,000	x 5 =	$ $254,140,000
New Mexico	$ $16,728,000	x 5 =	$ $83,640,000
Texas	$ $85,267,000	x 5 =	$ $426,335,000

In order for nonentitlement public entities to utilize the Section 108 program, States must include that option in their annual CDBG Action Plan and must establish the process for approving applications developed by nonentitlement UGLGs and for providing the required pledge of State CDBG funds. Under the Section 108 program, nonentitlement UGLGs apply directly to HUD for the loan guarantee assistance. However, the application must contain a certification by the State that it will pledge, as required by statute, its CDBG funds as security for the loan guarantee.

Loans under Section 108 may be for terms up to 20 years and principal repayment schedules and additional loan collateral are negotiable with HUD. Interim and permanent financing is provided. Interest rates on permanent loans are determined when the loans are sold at public offering. The interest rates generally are a few basis points above U.S. Treasury obligations of similar maturity to the principal amount of the Section 108 guaranteed loan. For more

information regarding the Section 108 loan guarantee program, call your CPD representative or go to the HUD web site at:
http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/index.cfm.

Other Federal Resources

Given the disproportionate ratio of available funds to infrastructure needs, coupled with the limitations on using HOME and CDBG, it is essential to combine funding from multiple sources to comprehensively address the infrastructure needs in the *colonias.* The agencies listed below can be used as funding sources to provide water and sanitation facilities to rural areas, including *colonias*:

1. **U.S. Environmental Protection Agency (EPA):** EPA provides the largest amount of funding for small communities trying to design and build wastewater systems. EPA currently funds several programs that border communities are eligible for, including: a) the C*olonias Wastewater Assistance Program*, which can be used to fund the planning, design and construction of wastewater facilities, make indoor plumbing improvements, and provide household connections to water and sewer facilities for low-income residents; b) the *Clean Water State Revolving Fund* program, which provides grants to states to capitalize loan funds to build wastewater facilities, with states providing a 20% match; c) the *Hardship Grants Program for Rural Communities*, which provides outright grants to disadvantaged rural communities (fewer than 3,000 residents) to address their wastewater needs; and d) the *Drinking Water State Revolving Fund (DWSRF)* program, which provides grants to states to capitalize loan funds for the installation and replacement of failing treatment facilities, eligible storage facilities and transmission and distribution systems. Small communities are given special consideration for *DWSRF*. For more information on the *Colonias Wastewater Assistance Program*, call 214-665-7149; for more information on the other programs, call 202-260-2268.

2. **U.S. Department of Agriculture (USDA):** The USDA *Rural Utilities Service Water and Waste Disposal Program* provides loans and grants to rural communities (10,000 or fewer residents) for water, wastewater, solid waste and storm drainage projects. The funds are administered locally by state and area Rural Development offices, and may be used to install, repair, improve or expand rural wastewater disposal facilities. Only communities unable to get credit elsewhere at reasonable rates are eligible. For contact information, call 202-690-2670.

3. **U.S. Department of Commerce:** The U.S. Department of Commerce, Economic Development Administration (EDA) provides grants to economically distressed areas for public works projects, including water and wastewater facilities. Eligible projects must promote economic development, create long-term jobs, and benefit low-income persons or the long-term unemployed. EDA grants usually cover 50 percent of project costs, but grants of up to 80 percent are available for severely distressed communities. For more information, call 202-482-5265.

4. **U.S. Department of Health and Human Services:** The Office of Community Services (OCS), Administration for Children and Families, located within the U.S. Department of Health and Human Services, annually issues Requests for Proposals from applicants capable of providing training and technical assistance on a region-wide basis within the United States to help small, rural, low-income communities in the construction or repair/rehabilitation of water and wastewater systems. For the last several years, six major applicant organizations have been the principal successful competitors for the available grant funds. The primary six technical assistance organizations are known as *Rural Community Assistance Programs (R-CAPs)*. At the present time, annual OCS grant funding provided through *R-CAPs* is approximately $835 million. For more information, call R-CAP, Inc. at (202) 408-1273, or visit their web site at: **http://www.rcap.org/.**

In addition to the Federal agency resources listed above, communities can enhance their capacity to address urgent water and wastewater problems through the use of the *Small Towns Environment Program (STEP)* developed by the Rensselaerville Institute. *STEP* is a collaborative, community-driven approach that challenges the traditional role of government involvement in solving community needs. This self-help approach encourages community members to pull together local resources, including human, material and financial, to significantly reduce the costs associated with bringing clean, safe water and wastewater systems to small towns. The State of Texas has carried out several successful *STEP* projects and continues to support ongoing initiatives. Funding for the Texas program is made available through the use of the CDBG program and Texas Water Development Board funds. For further information about *STEP*, contact the Texas Office of Rural Community Affairs at (512) 475-3900, or visit the Rensselaerville Institute web site at: **http://www.rinstitute.org/**.

Additionally, the North American Development Bank (NADB) and its sister institution, the Border Environment Cooperation Commission (BECC), created under the auspices of the North American Free Trade Agreement, can serve as a viable resource for financing infrastructure projects throughout the *colonias*. NADB's mission is to serve as "a partner and catalyst in communities along the U.S.-Mexico border in order to enhance the affordability, financing, long-term development and effective operation of infrastructure that promotes a clean, healthy environment for the citizens of the region." All NADB-financed projects must be certified by the BECC, be related to potable water supply, wastewater treatment or municipal solid waste management and be located within the border region. For further information, visit the NADB web site at: **http://www.nadbank.org/**.

SECTION IV- INDIVIDUAL DEVELOPMENT ACCOUNTS

Individual Development Accounts (IDAs) are dedicated saving accounts that can only be used for purchasing a home, paying for education or job training expenses, or capitalizing a small business. These accounts, which are generally managed by community organizations, are held at local financial institutions in the name of the individual participant. Contributions are made by individual participants over a pre-established time period and are matched using both private and public sources.

Developing individual assets can be an effective tool in improving the quality of life for *colonia* residents. IDAs can help *colonia* families build wealth and achieve economic independence, while also improving their current living conditions. The CDBG and HOME programs can both be used to provide matching contributions when used for the purposes outlined below.

Using CDBG Funds for IDAs

The use of CDBG for IDAs is not an eligible activity in and of itself. However, the purposes for which the funds in an IDA are to be used—to buy a home, start a business, or pay for education/job training—are eligible activities under the CDBG program. Therefore, CDBG may be used as a required match for IDAs, as discussed below, when the family or household of the individual for whom the IDA is established is determined to be low or moderate-income *prior* to assistance being provided:

1. To purchase a home: homeownership assistance meeting the low and moderate-income benefit housing national objective.
2. To pay education or job training expenses: public service under the low and moderate-income benefit limited clientele national objective.
3. To capitalize a small business (i.e., 5 or fewer employees including the owner/developer): micro enterprise assistance under the low and moderate-income benefit limited clientele national objective based on the owner/developer's family size/income.

Specific guidance in using Community Development Block Grant funds to assist IDAs (including eligibility, U.S. Treasury requirements, cancellation, reporting and compliance information) can be found in CPD Notice 01-12, issued August 14, 2001, through: **http://www.hudclips.org/**.

Using HOME Funds for IDAs

HOME funds may be used as down payment assistance along with an IDA when the purpose of the IDA is to purchase a home, but the guidance provided above **cannot** be applied to the use of HOME funds. HOME has a statutory requirement that funds must be invested in affordable housing within 15 days of draw down from Treasury. Therefore, HOME funds may not be deposited in an IDA. To learn more, a participating jurisdiction interested in using HOME funds for an IDA program should refer to the HOMEfires Policy Newsletter, Vol. 1, No. 8, issued June 1998 by the Office of Affordable Housing Programs. You may access HOMEfires newsletters at the following website: **http://www.hud.gov/offices/cpd/affordablehousing/library/homefires.**

Additional Funding Sources for IDAs

The U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services (OCS) provides competitive grants to establish, implement and participate in the evaluation of demonstration projects that will offer IDAs to lower income individuals and families. Although current and future awards are contingent upon the outcome of the competition and availability of funding, OCS anticipates the availability of approximately

$16 million dollars for funding approximately 50 new projects, including grants to existing grantees, in FY2003. Additional information can be obtained through the OCS website at: **http://www.acf.dhhs.gov/programs/ocs/**.

In addition, the Treasury Department's Community Development Financial Institutions (CDFI) Fund provides critically needed capital and financial services to financial institutions located within low-income urban, rural and Native American communities, who then use this capital to establish IDAs, among other uses.

SECTION V: SELF-HELP AND ONE-STOP SERVICE CENTERS

Because of the diversity of issues that *colonia* residents are faced with in their quest for affordable housing, combined with the increasing number of Federal, state, and non-profit organizations that are becoming involved in their plight, there is the possibility for confusion and duplication of efforts. HUD, therefore, strongly supports the creation of on-site technical assistance centers that can integrate programs, coordinate activities and more efficiently allocate resources. Self Help/One-Stop service centers can be designed to co-locate a wide range of services including construction training, contract for deed conversion assistance and home financing education. Using CDBG in tandem with a Section 108 guaranteed loan can fund construction of these facilities, and the centers' operating costs can be paid for with CDBG under the "Public Service" eligibility category.

The State of Texas has been very innovative in the creation of Self-Help centers, and they may serve as a model for other states to follow. In 1995, the Texas Legislature directed the establishment of five *colonia* Self-Help Centers (SHCs) in the six border counties with the highest *colonia* population—El Paso, Webb, Starr, Hidalgo and Willacy/Cameron. Each SHC is responsible for managing and overseeing five *colonia* communities within its county. Operation of the *colonia* SHCs is carried out through a local nonprofit organization, local community action agency or local housing authority.

The law that established the SHCs also required the establishment of an oversight committee, known as the *Colonia* Resident Advisory Committee, to advise the Texas Department of Housing and Community Affairs (TDHCA) on the needs of *colonia* residents. Each county selects two residents to serve on this committee, with the stipulation that one of those residents must reside in a *colonia* serviced by a SHC. These members then meet 30 days prior to making an award to a *colonia* SHC. TDHCA has reported great success with this framework. The committee structure has been instrumental in voicing the concerns of residents and developing useful tools and programs to address *colonia* residents' needs.

Funded by an additional 2.5% beyond the State of Texas 10% CDBG *Colonia* Set-Aside, the SHCs serve 28 designated *colonias* with approximately 10,000 *colonia* residents as beneficiaries. Some of the technical assistance services offered to residents include: rehabilitation; new construction; surveying and platting; construction skills training; tool library access for self-help construction; housing finance; credit and debt counseling; grant writing; infrastructure construction and access; and contract for deed conversions. Although primarily funded through

CDBG, Self-Help Centers are encouraged to find additional funding sources.

Self-Help Housing and Homeownership Assistance

Proyecto Azteca, a nonprofit organization operating out of Hidalgo County, Texas, was one of the first organizations to establish a SHC. Since 1991, Proyecto Azteca has helped 80 *colonia* families build their own homes. Through their program, Proyecto Azteca is able to provide homeownership opportunities to families with incomes less than $4,500, with mortgage payments of between $67 and $90 monthly. After helping applicants secure mortgage loans to pay off *colonia* lot purchase balances (up to $6,000), the nonprofit organization lends the tools necessary for an owner to build their own home, using their own labor. The houses are built at Proyecto Azteca's building site, and are then moved to the family's lot. Averaging about four months to complete, the 3-bedroom, 1-bath wooden frame houses are designed by volunteer architects and meet all of the locally established building codes and standards.

Lower Valley Housing Corporation (LVHC), located in El Paso County, Texas, is another example of how self-help housing programs can better the lives of colonia residents. Through the "Mutual Self-Help Construction" program, LVHC has constructed 360 homes since 1990, using 8-12 families who build over 65 percent of their own homes. Using self-help labor, LVHC is able to offer 3-bedroom homes for only $42,000, with no down payment and monthly payments of only $321, including taxes and insurance.

In the State of Arizona, nonprofit organizations such as Housing America Corporation and Comité de Bienestar have successfully leveraged USDA's *Mutual Self-Help Housing* program with HUD's *Rural Housing and Economic Development* (RHED) program to provide homeownership assistance to *colonia* residents. Comité de Bienestar used USDA funding to provide homeownership assistance in the form of revolving loans, forgivable loans for construction costs and grants for mortgage closing costs. In Mutual Self-Help housing, local sponsors help families qualify for a subsidized *Rural Housing Services Section 502* loan. The families find available land, and then form groups of six to ten families. With a construction supervisor, families help build each other's houses, contributing 65 percent of the labor required, over an eight-month period. The Housing America Corporation used HUD funds to assist families in *colonia* areas in Yuma County with homeownership counseling and downpayment and closing cost assistance.

In the State of California, the Coachella Valley Housing Coalition (CVHC) has assisted 801 families through its *Mutual Self-Help Program* since 1987. Using RHED and USDA funds, CVHC uses self-help methods to construct attractive 3- and 4-bedroom houses with two-car garages, tile roofs and tile floors. CVHC reports that the mutual self-help building process gives neighborhoods a very strong sense of community; consequently, homes are seldom sold and are generally well-maintained. While one of the largest producers of self-help housing in the country, CVHC consistently has more demand than resources. Since 1987, the organization has received over 10,000 pre-applications for assistance.

HUD has also worked in partnership with the Housing Assistance Council (HAC). HAC employs a "sweat equity" construction method to assist low-income rural families in becoming homeowners, and also provides loans, technical assistance, training and research to a variety of public, nonprofit and private organizations throughout rural America, with special emphasis on high-needs regions like the Southwest border area. In 1998, HAC was awarded a $1 million dollar grant from HUD's *Colonias* Initiative grant competition for the purpose of providing technical assistance to and capacity building to community-based nonprofits working in *colonias*. HAC also used $300,000 of this grant to provide 0% interest "seed loans" to support affordable housing in *colonias*. The success of this partnership can be seen in the increased capacity of community-based nonprofits to carry out activities with multiple funding sources.

Finally, HUD's Self-Help Homeownership Opportunity Program (SHOP) provides funds, through an annual competition, to national and regional nonprofit organizations and consortia that in turn funnel these funds to local affiliate organizations for land acquisition and infrastructure improvements for the development of self-help housing. The construction of housing units is funded through public and private sources, which frequently include HOME, CDBG and USDA Rural Housing Service funds. The contribution of labor provided by the homeowners and other volunteers greatly reduces the homebuyer's mortgage. Homebuyers are required to provide a minimum of 200 hours of labor on their own homes. Approximately $25.1 million is available for the FY03 SHOP competition, and approximately $65 million is proposed for FY04. Among the current grantees, both HAC and Arizona-based PPEP Microbusiness and Housing Development Corporation provide funds to affiliates in the colonias.

CONCLUSION

Clearly, the goal of providing safe, decent and affordable housing to *colonia* residents is a difficult one, fraught with challenges that will require cooperation among agencies from both within and between each layer of government. The plight of the *colonias* is not merely an issue of housing, or infrastructure, or debt financing; it is all of these issues, and many more, combined. Conversion of contracts-for-deed is of limited benefit to residents if the homes do not pass local building codes; rehabilitating or constructing housing is insufficient if there are no water or sewer lines with which to connect; and it is of no value to run water and sewer lines to a house with no connections.

Grantees must be creative in combining funds from the various Federal and state programs available to the *colonias*. For example, a successful project might utilize EPA and USDA funds to bring water and sewer lines to a *colonia*, while HUD's HOME funds are used to make its houses more livable, and its CDBG funds used to fill in the gaps. HUD hopes that this Notice will serve to stimulate a new inter- and intra-governmental approach to solving this problem, and that grantees will make an extra effort to coordinate and concentrate its funding sources so that they are being used as effectively as possible.

To find out more about *colonia* and farm-worker issues, visit HUD's website at: **http://www.hud.gov/groups/farmworkers.cfm**.

HUD also provides a toolkit for practitioners looking for funding sources or ideas for improving services to farmworkers and people living in colonias. This toolkit can be found at:

http://www.hud.gov/swborders.