Poverty Immigration and Latinos in U.S. Texas Colonias

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Abstract

Poverty, inequality, and exclusion are the basis of social justice. While these problems are prevalent in developing countries, they also occur in developed countries. In the United States, not only is poverty present, but it is also highly concentrated. Minorities, new immigrants, and women represent the most vulnerable U.S. groups. Officially, *poverty* is defined based on household incomes, yet characterizing poverty only on the basis of monetary resources is insufficient. As discussed in this article, poverty can also be classified on quality of life indicators, from housing, health, and education to socialization and political participation. This paper's objective is to establish the built environment and financial exclusion–two dimensions of a broad definition of poverty–as the foundation of social justice. A successful microloan program that addresses these two aspects of poverty is presented. The focus is on the effects of poverty in Texas colonias, ranging from how poverty is defined to its spatial manifestations.

Colonias represent an extreme case of isolation, exclusion, and an inadequately built environment. Poverty is observed through the quality of space and the capacity of individuals to access financial systems for improvement of their housing and neighborhoods. Specific policies targeting vulnerable groups within the country are proposed.

I. Introduction

About thirty-eight million people live under what is considered poverty in the United States (USCB 2009), which is equivalent to 13 percent of the nation's population. This system, however, is a limited way to define poverty. Other authors have proposed different methods of approaching disadvantaged groups in terms of "exclusion" and "access" (Besharov and Germanis 2004; Bhalla and Lapeyre 1997), involving quality of life indicators from housing, health, and education to socialization and political participation. In this paper, I concentrate on two dimensions of a broad definition of poverty—the built environment and financial exclusion—and argue that they are the foundation of social justice.

This paper speaks to these concepts through Texas colonias on the United States-Mexico border region. The thought path is based on our field work there since 2001, exploring various aspects of housing, economic activity and financial access, land tenure, and planning and development.

Colonias are poor settlements, usually located in semirural areas on the outskirts of cities, along the border region with Mexico. Estimates suggest that in Texas, around half a million people live in over sixteen hundred colonias, where living conditions resemble those in developing countries. Colonia residents in Texas are mainly of Latino origin, although more than half are born in the United States. This paper focuses on poverty and exclusion in the context of these colonias.

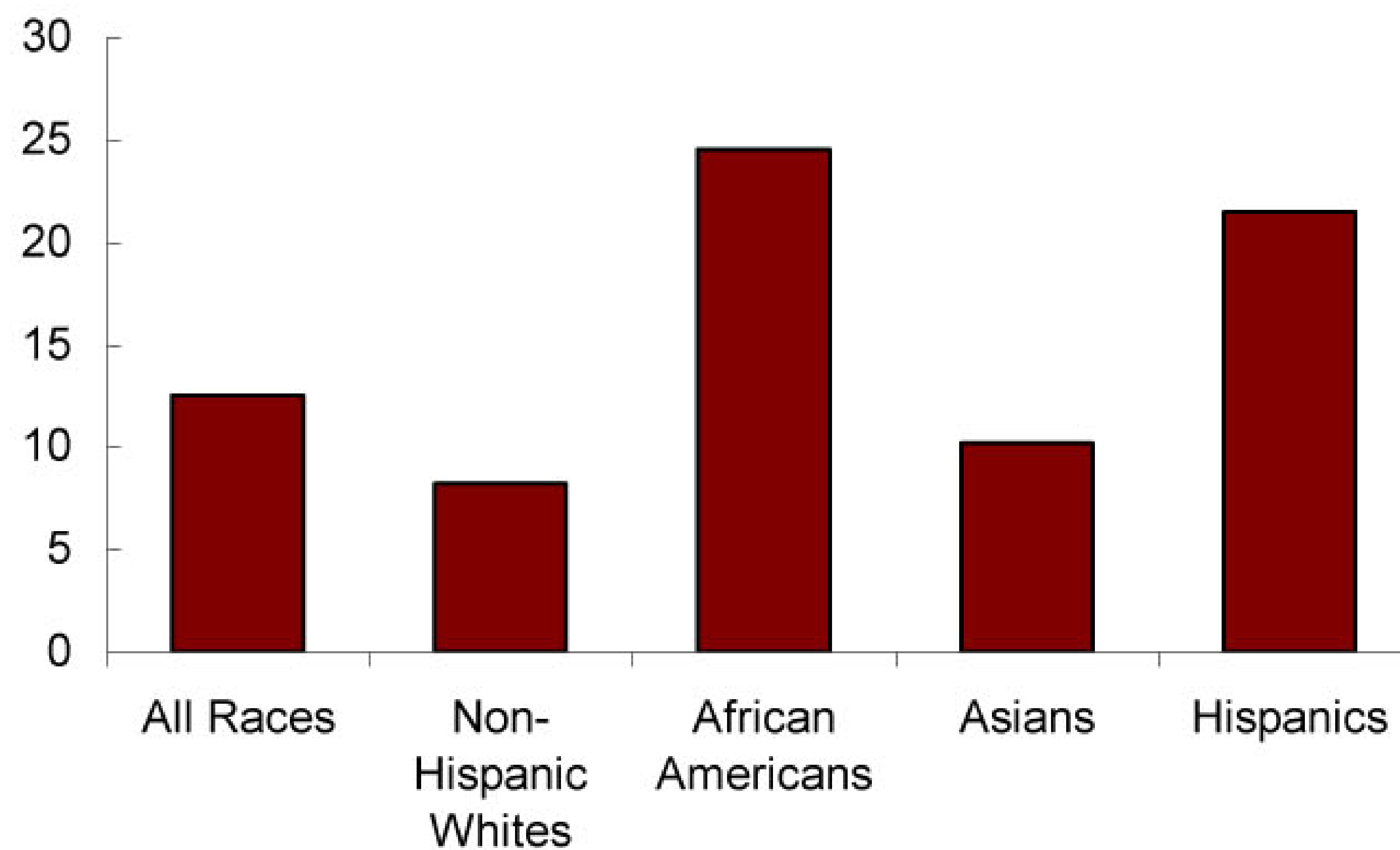
I first discuss poverty and how it is defined in the United States. Next I concentrate on two dimensions of poverty, the built environment and financial access, which become the core of the discussion on poverty and social justice. The following section focuses on Texas colonias and how the built environment and financial exclusion actually happen in these settlements. I present one successful microloan program that addresses these two aspects of poverty. Finally I draw some general conclusions and make a few policy recommendations.

II. Poverty, Immigration, and the Unbanked

According to the U.S. Census Bureau (USCB), thirty-eight million people are defined as living in poverty in the United States. The USCB uses a set of income thresholds varying by family size and composition to determine poverty in the country (USCB 2009). If the family or individual has an overall income less than a predefined threshold, then the family or individual is considered to be living in poverty. Income thresholds are updated yearly for inflation,. The 2008 poverty threshold for an individual under sixty-five years of age was $11,201.

Poverty is highly concentrated in the United States, spatially, racially, and socially (Partridge and Rickman 2005). Figure 1 shows poverty rates by ethnic groups for the latest year official statistics are available with this level of detail (USCB 2009).

Figure 1. 2007 poverty rates by ethnic groups in the United States



Source: United States Census Bureau (USCB 2009).

The highest poverty concentration is in minorities, mainly African Americans and Hispanics, and in recent immigrants. The bar graph shows that the poverty rate for all races was 12.5 percent. Comparing other races with this overall percentage, poverty rates for non-Hispanic whites (8.2 percent) and for Asians (10.2 percent) are relatively low, yet they are relatively high for African Americans (24.5 percent) and Hispanics (21.5 percent). A high proportion of the Hispanic population includes new immigrants, who are more likely to be classified as poor.

Gender disparities are also prevalent. More females (14.5 percent) than males (11.6 percent) are poor (USBC 2009), due to the fact that the women/men earnings ratio is less than 1. A ratio higher than 1 would mean that women earn more than men, while a ratio of 1 would mean men and women have equal earnings. In 2007 this ratio was 0.775 at the national level. A ratio less than 1 is found in all fifty states, ranging from the lowest (0.63) in Wyoming to the highest (0.933) in the District of Columbia.

Nevertheless, it is my view that this definition of poverty, although valid for some purposes, is limited. Other researchers have challenged a definition of poverty based only on median income thresholds (Besharov and Germanis 2004; Bhalla and Lapeyre 1997; Chrisinger et al. 2009; Cover and Kleit 2008; Iceland 2005; Saunders 2008; Weinberg 2006). These scholars

suggest different variables (such as education, health care, or access to services and infrastructure), which they consider better for explaining and defining poverty. This approach is aligned with a more comprehensive view of poverty related to quality of life, the built environment, the concept of equality, exclusion and access, political power, and cultural and social respect.

New alternative measurements have been proposed in different countries and regions, the Human Development Index (HDI) being one of the most widely used (UNDP 2007). This index, designed and calculated annually by the United Nations Development Programme, tries to estimate well-being in a comprehensive way, looking beyond income or gross domestic product. HDI incorporates a variety of variables that focus on three dimensions of human development: health, education, and income.

Results from international application of HDI can be compared with the "simple" way of calculating prosperity. For example, while the United States ranks first in the world based on its gross domestic product, it ranks twelfth when HDI is considered (UNDP 2007). Other indexes are also related to worldwide gender disparities—the gender development index (GDI) and the gender empowerment measure (GEM). GDI focuses on HDI, adding the gender variable, while GEM measures actual participation in income and political decision making, as well as in professional fields of both sexes. The United States ranks sixteenth on the Gender Development Index and fifteenth on the Gender Empowerment Measure (UNDP 2007).

HDI, GDI, and GEM are merely three examples of alternative ways to estimate people's well-being. Clearly other elements beyond income are needed to comprehend quality of life variables, which ultimately create a more meaningful definition of social justice.

In this article I focus on two dimensions of poverty and inequality in the United States: financial access and the built environment. In the next sections, I will discuss from a conceptual standpoint how financial access and the built environment represent exclusion from some groups, thus resulting in deepening poverty and social injustice.

Financial Access

The United States has one of the most widely used financial systems in the world, with a high percentage of its population having access to checking and savings accounts and a variety of financial instruments (Hogarth et al. 2004). At the same time, however, an increasing share of

the population has no access to these services—specifically, minorities and new immigrants (Hogarth et al. 2004; Kennickell et al. 2000; Paulson et al. 2006).

About thirteen million people in the United States have no access to financial institutions (Hogarth et al. 2004). They are known as the *unbanked*, defined as those who live on a cash economy with no access to savings, credit cards, or other commonly used financial instruments (Borjas 2002; Hogarth et al. 2004; Paulson et al. 2006 Texas AppleSeed and CRG 2004). Such limited financial capacity is concentrated among minorities and new immigrants (Kennickell et al. 2000; Lewis et al. 1996; Paulson et al. 2006).

A direct connection exists between social justice and financial access. Savings, checking, and a variety of other accounts are based on the idea that people have money they can put aside for future use. Based on the level of savings, financial institutions can also offer other services such as loans. The financial system tends to deepen income differences. For example, let's suppose there are two individuals: A, who has limited wealth, and B, who is wealthy (whatever the concept of wealth is). Because A does not have extra income, that individual does not have money in the bank. Wealthy B, however, has a substantial amount of money in the bank because that person has more money than needed for daily expenses. In terms of equity, the follow-up question would be: Who most needs money? The simple answer would be A, as he/she does not have enough to cover personal expenses.

The financial system works differently, though. In reality two things happen. First, B can access a larger loan than A, and second, the interest rate paid by B is lower than the interest rate paid by A. Why? Because A is perceived as riskier by the financial system, and if default happens, the assets that B has in the bank would cover the required payments. In this way, B would be able to become wealthier. A, however, is trapped with no access to a loan—or if a loan were available, it would have higher costs, making it even harder for A to get out of poverty.

Furthermore, B has both savings and checking accounts, with monthly salary deposited directly into one of those accounts. On the other side, A does not have even a savings account (due to lack of income). On payday, A will go home with all earned wages literally pocketed. According to police reports, individual A is more likely to be robbed since cash attracts such incidents, which only worsen the financial gap (Paulson et al. 2006; Texas Appleseed and CRG 2004).

Another layer in the financial access/exclusion discussion concerns the fact that current incomes (wages or any other monetary compensation) for the poor are not enough to cover living expenses. As a result, and due to limited access to mainstream financial institutions, the use of payday lenders is becoming an increasingly common practice (Griffith et al. 2007). Payday lending consists of small, short-term, high-interest loans intended to bridge the borrower's gap in income versus expenses between pay periods (Baylor 2008). An abundance of pawnshops and payday lending centers have emerged, making the "under economy" a growing business (Bell Policy Center 2008; Griffith et al. 2007). Payday loan volume is estimated to be at least $28 billion a year (CRL 2006), and this volume has very likely increased during the current economic crisis.

In many cities there has been an explosion of centers offering these financial services, which usually are independent from banks. In fact, these centers charge higher interest rates than mainstream banks and financial institutions. The reason for such high rates, according to the paylending centers themselves, is the perceived risk of default based on their assessment of the borrowers' financial capacity and an immediate response to the clients' needs. The problem is that these services become extremely expensive, as they commonly generate a spiral of debt that is difficult to break (Baylor 2008). Further, the high interest rates charged by these centers are considered usury and are actually banned by some states and cities (Baylor 2008; Bell Policy Center 2008; Griffith et al. 2007). Payday lenders are legal in Texas, where regulations are less restrictive than in other states and the industry represents a $3-billion economic activity (Baylor 2008). Several researchers are calling for more regulation of these lending practices, as they are seen as harming the poor by trapping them in a spiral of debt (Paulson et al. 2006).

In this way, lack of access to financial services and characterization of the poor as "credit unworthy" establish another barrier for overcoming poverty, which is the basis of the trap that poor people face in their struggle to obtain credit. An individual born into poverty will be less likely to be considered creditworthy and, as a result, has no access to credit. This argument has been contested by Yunus (1986) and the Grameen Bank he created. Yunus claims that access to credit should be considered a human right and provided to all individuals. He proposes a "fair chance" to improve living conditions, based on the fact that if the poor are excluded from credit it is harder for them to overcome poverty. Social justice, in his view then, requires access to

credit as a first step in the right direction, without, however, meaning charity. Loans and the interest they generate are to be repaid (Yunus 1986).

Several U.S. cities are now proposing certain policies to address the needs of a growing number of citizens who do not participate in the mainstream financial system. The first "banking the unbanked" campaign was an initiative of the mayor, treasurer, and Federal Reserve Bank of San Francisco, California, along with the nonprofit Earned Assets Resource Network (EARN). After an initial study, the city estimated that fifty thousand San Francisco households were unbanked, with African Americans and Latinos having the lowest rates (50 percent of adults in these ethnics groups were unbanked). The city evaluated this state of affairs as a major problem, and searched for creative ways to encourage more citizens to open savings accounts. As a result, the city proposed a program called Bank on San Francisco to develop new products and approaches, with the initial objective of opening ten thousand new savings accounts (U.S. Conference of Mayors 2007). Bank on San Francisco involved not only the City, but also a number of banks and credit unions.

This innovative approach included accounts with low or no fees and no minimum-balance requirements, the acceptance of Mexican matricula and Guatemalan consular identification cards as primary identification, and financial training programs. Two years after the program's launch, the results were better than expected, with 31,347 new accounts opened. On average, account balances were $980, and over 680 people attended financial-management training classes (Cisneros 2008).

After such success, other U.S. cities followed San Francisco's initiative, with several currently trying to reach out to the unbanked through promotion campaigns directed toward immigrants (Paulson et al. 2006; Texas Appleseed and CRG 2004). The U.S. Conference of Mayors now recognizes the need to recruit more minorities into the financial system via active means (U.S. Conference of Mayors 2007).

More recently, at the federal level, an initiative is proposed for universal savings accounts in an attempt to reach those who are left behind (Lieber 2009). The idea behind this proposal is that exclusion of the poor from such a service has negative effects for society as a whole.

Another evidence of the increasing "lack of access" or exclusion in U.S. mainstream financial institutions comes from the launch of Grameen Bank America in Queens, New York City. The branch opened in 2008 with the objective of serving those potential entrepreneurs who

have difficulties accessing the mainstream financial system. They are mainly minorities (new immigrants) and women (Grameen America 2009).

The Built Environment

First I will present a broad view of how *the built environment* is defined, and then discuss its relationship to poverty and social justice. The built environment, as a general concept, refers to everything that humans have done (on purpose or not) in the natural environment (Bartuska and Young 1994; Crowe 1994). The term refers to buildings, structures, bridges, and roads, as well as all the physical (both public and private) spaces that humans have created. The built environment is what results from human intervention—humans create places.

People reside, work, entertain, socialize, and, in general, live in places. There are different types of places, ranging from welcoming, sustainable, and healthy (and their converse) to limiting or many other characteristics whose specific meanings generate a discussion beyond the scope of this paper (Bartuska and Young 1994; Crowe 1994). I am focusing here on the fact that places have the capacity of limiting or enhancing human development (as described above). There are places where humans cannot develop their full potential and become the manifestation of social injustice. This condition occurs in places where people are living without minimum sanitary conditions, running water or wastewater services, electricity, open public spaces, parks, and plazas, along with limited mobility facilities. Observing such areas is a clear way to view poverty beyond income thresholds.

A low-quality built environment as described above is one form of "exclusion" and has a direct effect on the quality of life for those who actually reside, work, or spend time there (Besharov and Germanis 2004; Bhalla and Lapeyre 1997).

For the sake of argument, I will differentiate within the built environment between buildings (public or private) and infrastructure. In general, infrastructure may be considered a public good, since it can be enjoyed by all. A walking trail in a park, for instance, could be enjoyed by everyone, regardless of race, ethnicity, gender, or economic status. When infrastructure is privatized, however, only those who pay can actually use it. In the case of the walking trail, a fence might be placed around the park and an entrance fee could be required.

Regardless of the infrastructure's ownership, there are places (public or private) that lack it. This absence generates a quality of life problem. Basic infrastructure (public or private) is a key

component for a safe and healthy life, both physically and socially. When there are no paved roads, parks, public spaces, clean streets, water, or sewerage, the quality of life in neighborhoods—along with that of the individuals who live there—is at risk.

Buildings in the built environment can take a variety of forms and uses. In this paper, I focus on housing as a private space. In low-quality places, houses are generally precarious. Not only do they lack enough space to accommodate the people living there, but in the absence of water or wastewater, sanitary conditions are also limited. Health problems are a direct result of such unmet needs. Lack of housing that is adequate, healthy, and affordable is a limitation of the built environment.

Slums are a clear example of limiting built environments, a well-accepted fact in developing countries about which much research has been done and policies proposed (UNDP 2007). A growing body of research, however, is finding increasing urban, suburban, and rural community problems in developed countries. Lack of infrastructure and informal construction patterns are just two of the many issues found in increasing numbers in the United States in what some call "irregular settlements" (Stuesse and Ward 2001). These regions represent concentrations of poverty with many of the characteristics of the developing world, but located on the outskirts of cities. In these settlements, land is not developed but rather divided and then sold, with no infrastructure or the proper services required by city regulations. One such example is the colonias along the U.S./Mexico border region. Within that framework, this paper presents the case of colonias in Texas, concentrating on both types of exclusion: financial and physical.

III. Texas Colonias

Colonias represent a manifestation of poverty along the two dimensions discussed in this paper. First, the built environment in colonias does not enhance the quality of life for those who reside there, and second, colonia residents are members of the unbanked, with little or no access to credit. Residents in colonias live in spatial isolation, away from job opportunities and with minimal basic retail or commerce facilities.

Colonia, the Spanish word for neighborhood or community, refers to poor settlements usually located in semirural areas on the outskirts of cities along border regions. At the federal level, a *colonia* is defined as:

> "any identifiable community that: A) is in the State of Arizona, California, New Mexico, or Texas; B) is in the area of the United States within 150 miles

> of the border between the United States and Mexico, except that the term does not include any standard metropolitan statistical area that has a population exceeding 1,000,000; C) is determined to be a colonia on the basis of objective criteria, including lack of potable water supply, lack of adequate sewage systems, and lack of decent, safe, and sanitary housing; and D) was in existence as a colonia before November 28, 1990." 42 USCA §1479(f)(8). (Ward et al. 2003)

Colonias, then, are found in all states bordering Mexico. Texas has the largest number of colonias and the largest number of people living there (Ward et al. 2003). Following the State of Texas official definition, *colonia* refers to a residential area along the Texas-Mexico border that "may lack basic water and sewer systems, electricity, paved roads, and safe and sanitary housing" (OTSS 2007).

There is no exact account of the number of colonias. A 2006 report for the Texas Legislature (Williams 2006) identified 1,786 colonias with a population of 359,825 in only the six most populous border counties having the most colonias. There are twenty-nine border counties, however, which means that the actual numbers are higher. Others estimate that the colonia population is close to half a million people (Ward et al. 2003).

Living conditions in colonias resemble those in developing countries (Giusti et al. 2008; Ward et al. 2004; Wilson 1997). Colonia residents in Texas are mainly of Latino origin, with more than half born in the United States. They have been characterized as the "first stage" in a migration process from the south into the U.S. mainland, but it seems that colonias are more established than expected (Giusti et al. 2007).

Similar settlements exist in the rest of the U.S. mainland (Stuesse and Ward 2001), but as pointed out above, to be called colonias officially, they have to be located in counties bordering Mexico. Colonia-type settlements comprise subdivisions in which households build their homes in phases, commonly known as self-built, or incremental, construction (Borjas 2002). Colonias constitute the principal route to home ownership for the very poor, who are mostly excluded from financing sources (MPI 2006).

Colonias in Texas provide the poor with an affordable place to live. While cities provide job opportunities, the income generated by low-skilled labor is not enough to meet the increasing cost of living. As a result, workers look for affordable alternatives. Colonias developed in response to market forces, with demand coming from low-income households and supply coming from relatively cheap land not useful for agricultural purposes (Larson 1995).

Colonias in Texas – The Built Environment

Colonias in Texas are a relatively new phenomenon, compared to older and more established ones in California. They emerged and grew as the result of supply and demand forces in a "free" Texas land market, with almost no regulations or public intervention (Larson 1995). The emergence of colonias dates back to the 1950s, but the 1980s and early 1990s showed the largest growth. "Developers," taking advantage of local conditions, created unincorporated subdivisions using land that lay in floodplains, agriculturally worthless land, or other rural properties. They divided—not developed—the land into small lots, put in little or no infrastructure, and sold them to individuals who had no other housing alternatives (Ward et al. 2004; Giusti et al. 2008).

Regulations operating in most urban and rural developments in the United States were not mandatory in colonias, so the lots were sold without water, wastewater, paved roads, or drainage systems. A place for the poor to live was accommodated through a business for those landowners able to profit from poor land (Wilson 1997). Lack of plotting resulted in overlapping lots and streets with abrupt endings or no access, among many other inconsistencies (Ward et al. 2003). No consideration was given to flood-prone areas.

Construction in small steps is commonly observed. Colonia residents often work on their houses as employment schedules and finances permit. (Ferguson and Haider 2002; Temkin and Ferguson 2004). Houses are being improved constantly and, as families grow, houses expand accordingly. While construction takes place, families continue to live in the house and the pace of construction is generally slow. This practice, commonly known as *incremental construction*, characterizes the housing supply in these neighborhoods. While such practice is common in Latin America (Greene and Rojas 2008; Ward et al. 2004), it does not represent mainstream American construction patterns.

Incremental construction results in neighborhoods with houses in all stages. Photos 1-4 show four examples of house construction at different levels of completion in Texas colonias. In the first three pictures, families live on the property during construction. In the last photo, the owner is building a separate structure while living in a mobile trailer.

House almost finished

House under construction

Building second floor

Building separate structure

Source: Giusti and Estevez 2007

Home ownership is high in colonias. Empirical research shows that 91 percent of residents are homeowners as opposed to renters (Giusti et al. 2008), higher than national figures for 2007 when about 68 percent of U.S. housing units were owner-occupied (U.S. HUD 2007). Current U.S. housing literature shows that high rental rates are a negative indicator for neighborhood quality. Ownership, on the other hand, is considered a proxy for positive neighborhoods (Borjas 2002). This characterization does not hold true for colonias, however.

What is expected and found in colonias is very low property values and poor construction quality. As houses are small, with few conveniences and little maintenance, their value does not increase. Because the neighborhoods lack infrastructure (such as paved roads, water, and wastewater), the value coming from the neighborhood does not add worth to the individual lot. Location has a negative effect in colonias.

Colonias – The Unbanked

Very few colonia residents have savings or checking accounts, and even fewer have other forms of financial instruments (Giusti and Estevez 2007). Their access to mortgage loans to buy a house or make home improvements is limited. Residents are not creditworthy from the perspective of mainstream financial institutions, and are thus basically excluded from their services. Colonia residents are part of the unbanked, as described above (Paulson et al. 2006; Borjas 2002). In the case of Texas colonias, residents combine two features of the unbanked: They are predominantly minorities (Hispanics) and they are first- or second-generation immigrants.

Being uncreditworthy and living on low-value properties, colonia residents do not have access to mortgage loans or other forms of credit for home improvements. Furthermore, property values (typically used to back a loan) are not worth enough to be used as collateral. With no other source of financing, colonia residents use their limited family savings to buy small parts and pieces at a time, a method that forces them to build their houses as time and resources become available (Giusti et al. 2008). This is the way in which incremental construction, as described above, actually happens.

A successful experiment: Serving the needs of the excluded

Next I present a microloan program for house improvement in the colonias in Starr County,Texas, one of the poorest U.S. counties with a median household income of $19,127—less than half the median household income in Texas as well as the United States. Poverty rates are also higher than the national standard, with 36.2 percent living below the poverty threshold. Following the focus on the built environment and access to financial services, note that the population of Starr County resides predominantly in colonias, as described above.

A nongovernmental organization working in Starr County colonias designed and implemented the Nuestra Casa (NC) program, which acknowledges the barriers facing

immigrants and minorities and is based on the findings of Yunus and the experience of the Grameen Bank. The NC revolving fund, consisting of loans up to $2,500 given to qualified applicants for home improvements with no collateral, is based on the borrowers' capacity to pay back the loans. These loans are very small, as the capacity of the applicants to pay them off is also small (Giusti and Estevez 2007). Thus the home improvements are likewise small.

This financial program exemplifies a successful experience that addresses the two aspects of poverty discussed in this paper: the built environment and limited financial access. The program gives credit to those who are excluded from mainstream financial institutions, allowing them to invest in improving their homes. Furthermore, as the loans are small and affordable, the borrowers can manage to pay for only small (but meaningful) improvements or additions in their housing units, supporting the incremental construction patterns mentioned earlier.

In this way, the program responds to our dual perspective. First, in terms of access to financial services, the NC program gives credit in small amounts to otherwise excluded individuals, and second, in terms of the built environment, the loans are used for home improvements.

The NC program's success is measured from different perspectives. One obvious indicator of success is related to loan payments, and the program shows a small 3-percent delinquency rate. This low percentage is explained by different factors, mainly high income-to-loan ratios (I/L). These ratios show that loan applicants had no other financial obligations, as most live on a cash economy. In other words, they are members of the unbanked. Another measure of success is related to the actual home improvements. As the program does not restrict the type of upgrade, the actual work develops in response to the residents' needs. The NC program trusts the borrowers to define their own housing needs and how to fulfill them.

Some lessons have been learned from the NC program as it is being implemented in Texas. (1) Colonia residents not only have savings levels that allow them to pay their monthly debt obligations, but the borrowers actually pay them. (2) The use of these loans was defined by residents alone with no interference from loan officers, a practice based on the assumption that residents are capable of defining their own needs. (3) While borrowers have no savings in any bank, they have the capacity to repay small amounts. The I/L ratio shows that they are out of the mainstream financial institutions but effectively repay their loans.

What is learned from this program is that colonia residents are excluded from a sophisticated financial system for three reasons. First, they are poor, and as such are considered very unlikely clients. Second, they need loans for houses that have little market value. And third, work may be performed without meeting standard construction codes.

IV. Conclusions and recommendations

Poverty in the United States is concentrated among minorities and new immigrants, not only because they have low incomes but also because they live in inadequate places and are excluded from financial institutions. From a development and planning perspective, this paper concentrated on Texas colonias, where poverty and exclusion are evident, and focused on two dimensions of poverty—lack of financial access and the built environment.

Residents in colonias live in spatial isolation, away from job opportunities, with minimal basic retail or commerce options. On top of such isolation, basic infrastructure is missing, with many colonias lacking water or sewage, paved roads, or garbage collection services. Housing is also precarious. Many of the units are unfinished or do not meet minimum construction standards. This situation is a built-environment dimension of poverty in colonias.

Colonia residents have very limited access to financial services, and if they do, they are the subjects of excessively costly ones. They do not qualify for mortgage loans. Besides, property values are small, and their houses do not meet the minimum construction standards required both by city and planning offices and by financial institutions. This state of affairs makes their case even more difficult and reinforces their financial exclusion.

Combining these two dimensions, precarious housing and infrastructure with exclusion from the financial system, creates a scenario in which colonia residents can buy only a few small parts and pieces for homebuilding. The outcome of the juxtaposition of these poverty dimensions is a pattern of incremental construction generating a long-term process by which residents build as finances allow.

Few programs address these limitations in colonias. In this paper, I have discussed the Nuestra Casa (NC) microloan program for home improvements. By relaxing loan requirements and allowing an incremental construction practice, the program serves the needs of the poor in Texas colonias. With loans as small as $2,500, colonia residents are upgrading their houses and improving their communities. They show the capacity to use loans wisely and to meet payment

requirements. While the majority of the population is unskilled, earning low salaries, their income-to-loan ratios are high enough to allow them to afford the monthly payments on a small loan.

What is learned is that a program tailored to the needs of local recipients can be successful. Frequently, banks and mainstream financial institutions claim that it is too costly to make small loans due to administration costs. While this statement is valid, the positive outcomes should be considered from the social and political perspectives of justice and equity. Perhaps the public sector should redirect housing policies, from ownership policies toward home-improvement policies. Such a move would allow more flexible programs, both in terms of housing standards as well as loan requirements and selection bias.

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