

COMMUNITY LENDING PLAN 2003  
AFFORDABLE HOUSING ADVISORY COUNCIL  
HOUSING & COMMUNITY DEVELOPMENT COMMITTEE  
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## BACKGROUND

In November 1998, the Federal Housing Finance Board approved a regulation (12 CFR 952.1) establishing Community Investment Cash Advance (CICA) programs. The regulation obligates each Federal Home Loan Bank to develop an annual Community Lending Plan for approval by the board of directors. The board of the Seattle Bank has delegated that responsibility to the Housing & Community Development Committee. The regulation also requires the bank to:

- Conduct market research in the Bank's district;
- Describe how the Bank will address identified credit needs and market opportunities in the Bank's district for community lending;
- Consult with its Advisory Council and with members, nonmember borrowers, and public and private economic development organizations in the Bank's district in developing and implementing its Community Lending Plan; and
- Establish quantitative community lending performance goals.

The Community Lending Plan 2003 for the Federal Home Loan Bank of Seattle will be reviewed by the Affordable Housing Advisory Council in November 2002 prior to action by the Housing & Community Development Committee and will be submitted to the Finance Board in January 2003.

## THE FEDERAL HOME LOAN BANK OF SEATTLE

As of June 30, 2002, the Seattle Bank had \$44 billion in assets, 374 stockholder customers and six approved housing affiliates. The bank's market includes eight states (Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington and Wyoming) as well as the Territory of Guam and American Samoa. This region is home to one-third of the Native American reservations in the United States, Alaska Natives, Native Hawaiians, and the native peoples of the western Pacific Islands.

The Seattle Bank offers a variety of community-lending products in addition to advances, letters of credit, a mortgage purchase program and other financial products and services for community lenders serving this diverse region. The community lending products available to the bank's financial institution customers include:

## **GRANT PROGRAMS**

The Affordable Housing Program is a grant program for the capital costs associated with affordable housing development. As of September 30, 2002, \$101.0 million in grants had been committed to assist 21,384 low-income households. Home\$tart and Home\$tart Plus, \$19.4 million set aside from the AHP, provides grants for low- and moderate-income, first-time homebuyers. To date, sufficient funds have been set aside to help 4,075 families.

The Affordable Housing Program Implementation Plan details how the AHP and H\$P are administered. The plan is reviewed by the bank's Affordable Housing Advisory Council and approved by the Board of Directors every year.

## **ADVANCE PROGRAMS**

The Community Investment Program and the Economic Development Fund comprise a \$1.0 billion revolving advance pool for affordable housing and economic development that benefits low- and moderate-income individuals and neighborhoods. Since 1990, the Seattle Bank has made more than \$2.7 billion in CIP/EDF advances, benefiting 40,233 families and funding \$727.8 million in community-based economic development. All of these advances have been made at the bank's cost of funds. Through the CIP/EDF, the Seattle Bank also offers discounted prices on its letters of credit and forward rate locks for qualifying projects.

At the joint meeting of the Board of Directors and the Affordable Housing Advisory Council in 2002, the board and council approved changes to the CIP/EDF program to create a new, targeted fund for community development called the Smart Growth Fund. The Smart Growth Fund is a \$10 million pool of short-term CIP/EDF advances priced at rates below the bank's cost of funds to support specific community development partnerships.

The criteria for selecting partnerships that may access the Smart Growth Fund include: a) the projects must have a demonstrated community impact on affordable housing and/or economic development; b) the partnership must create viable, low-risk, CRA lending opportunities for customers; and c) the partnership must support the bank's outreach to national or regional foundations or other agencies.

Currently the Seattle Bank is working with the Enterprise Foundation to use the Smart Growth Fund to provide low-cost second mortgage capital as part of the bank's outreach to first-time, low-income, minority and displaced homebuyers in Portland, Oregon. A Home Of Your Own/Portland is a demonstration program that we plan to replicate throughout the bank's region in 2003.

## **RECOVERABLE GRANT PROGRAMS**

The Challenge Fund is a \$1.2 million recoverable grant program for predevelopment costs associated with affordable housing. Because the grants are recovered if the project is successful, almost \$1.7 million in Challenge Fund commitments have been made, helping more than 6,500 families, primarily in smaller rural communities. To date, only 13.5 percent of the Challenge Fund awards have been forgiven because the proposed housing was not feasible.

Access, a recoverable grant program for predevelopment costs associated with community-based economic development, was created by the board in 2000. In the first three years of the program, the board has set aside \$200,000 per year. Access grants have been awarded to 16 projects in every state but Utah. Of the \$580,000 committed to date, \$60,000 was recaptured from a successful application; none has been forgiven. In mid-2002, the Affordable Housing Advisory Council requested that the bank research using Access to fund loan loss reserves to facilitate customer investment in CDFIs. We have initiated several pilots and plan to offer the program region-wide in 2003.

## **MORTGAGE PURCHASE PROGRAMS**

With the advent of the bank's Mortgage Purchase Program, Community R&D has explored ways to focus that resource on addressing specific community lending needs. As of June 30, 2002, the Seattle Bank has purchased 9,578 mortgages, of which 3,555 (37 percent) were to low-income families.

Specific initiatives combining MPP and community lending products include:

Pathways, a partnership with public housing authorities to create homeownership opportunities for low-income and minority households. Through Pathways, a housing authority can purchase a number of single-family homes using FHA-insured mortgages, which are then sold to the Seattle Bank. The housing authority leases the homes to low-income families until those families are credit eligible to assume the mortgage. Currently the first partnership of 60 homes is underway with the Spokane Housing Authority and Sterling Savings Bank. Phase 1 is under construction with the first mortgage scheduled to be delivered to the Seattle Bank in early December.

Title VI, a partnership with tribally designated housing entities. The Seattle Bank has been approved to purchase up to \$25 million in customer loans to tribes for affordable housing that are guaranteed by Title VI of NAHASDA. We expect to close on the first deal, a \$475,000 loan by Wells Fargo AK in November. Because of the Seattle Bank's investment in the loan, Wells Fargo will be able to offer the Native Village a loan rate approximately 200 bp lower than market.

A Home Of Your Own/Portland. This initiative is the first project resulting from an alliance between the Seattle Bank and the Enterprise Foundation. Partnering with local customers, the Housing Authority of Portland and the Portland Housing Center, the Seattle Bank plans to purchase 100 mortgage loans to low-income, minority, displaced and disabled homebuyers in the city of Portland, Oregon by December 2004. Funds for the second mortgages will be available from the Portland Housing Center, a member of the NeighborWorks Network, and the Seattle Bank's Smart Growth Fund.

## **COMMUNITY LENDING GOALS - 2002**

The goals for 2002 and the results as of October 31, 2002, are described below.

### **Quantitative Goals and Results**

- Fund at least 40 economic development projects using the CIP/EDF. The Seattle Bank has funded 57 new economic development projects with 15 customers. These projects are located in 30 communities throughout the region.
- Fund at least \$75 million in affordable rental housing using the CIP. The bank has funded \$102 million in new affordable rental housing projects.
- Fully commit the Access funds for 2002 (\$200,000). The bank has committed \$275,000, which includes funds returned from previous years. There is \$20,000 available for projects submitted during the fourth quarter.

### **Qualitative Goals and Results**

- Launch AHP and Home\$start on-line applications. Both applications were made available on line in 2002.
- Product a compliance-training program for AHP sponsors. Six web-based compliance seminars were held in the second half of 2002.
- Complete a Pathways transaction and market the program to housing authorities in this region. We anticipate the first closing in the first week of December.
- Commit to purchase a loan to a tribal housing entity guaranteed by Title VI of NAHASDA. We anticipate the first closing during November.
- Develop strong partnerships with regional and national organizations to support and enhance our community development initiatives. We signed an agreement with the Enterprise Foundation which has led to a homebuyer program in Portland, Oregon.
- Enhance the bank's web site to assist community-based economic development. We have created an on-line resource and partner director to help interested individuals and organization locate the resources they need for economic development projects.

## MARKET RESEARCH

In January 2002, the Seattle Bank commissioned a survey of its 354 customers; 189 customers responded to the survey. The profile of the respondents closely matched the profile of all bank customers, so the responses discussed below can be applied to the bank's entire membership with a high degree of confidence. The survey included a number of service areas; the data discussed below pertain specifically to the bank's community investment products and services.

Eighty-three percent of respondents said they valued the bank's assistance in meeting the needs of their communities and 69 percent rated those services as good to excellent (30 percent reported no experience).

Community lending services, however, were ranked less important than core bank activities such as funding services, correspondent services, interest rate risk and investment management services. Only 26 percent said the community lending services were "extremely" or "very important."

Processing transactions quickly and effectively was rated "extremely" or "very important" by more than 85 percent of respondents, and 78 percent said they would use the bank's website to receive information about bank products and services. Seventy percent said they probably would conduct transactions through the bank's website.

Seventy-four percent of respondents felt they understood the bank's products and services well. Additional comments pertinent to community investment included:

- Continue to support CIP advances
- Educate loan officers on community-based lending opportunities
- Help customers find projects that qualify for AHP grants
- Explore funding for urban revitalization
- Help customers create community development partnerships
- Reduce or eliminate CIP/EDF prepayment fees
- Evaluate how the AHP could be better used in smaller, rural communities

During 2002, bank staff attempted to address the issues and concerns raised by the customer survey within the regulatory constraints. In particular staff:

- Speeded up Home\$start transactions by creating a web-based interface and assigning program management to a single staff member.
- Speeded up the AHP application process by creating a web-based interface and making both the application and the scoring criteria available on-line.
- Educated customers on AHP compliance by requiring successful applications to complete a training session before grants were disbursed.
- Continued to promote CIP/EDF advances while encouraging customers to use those advances for longer-term funding (60 months or more).

- Completed a MOU with the Enterprise Foundation that will lead to more community development partnership opportunities in the region. The first such partnership was announced in Portland in September.
- Drafted a MOU with the National Development Council to create a program combining New Market Tax Credits (NMTC) with the CIP/EDF for smaller customers. The MOU will be signed if the proposal is awarded NMTCs in 2002.
- Reached out to several larger customers to promote joint AHP applications with customers in smaller, rural communities to create affordable housing opportunities in those communities.
- Marketed specialized community lending opportunities to customers serving targeted communities. For example:
  - the Title VI loan purchase product to customers lending to Native American and Alaska Native housing entities,
  - A Home of Your Own/Portland and the Smart Growth Fund to customers lending in the Portland metropolitan area,
  - Pathways to customers interested in developing partnerships with public housing authorities,
  - New Market Tax Credit partnership to customers who are successful small business lenders,
- Offered Access as a loan loss reserve to customers who have an established relationship with Community Development Financial Institutions (CDFIs).
- Planned a series of regional seminars on accessing and using the bank's community lending products during the first quarter of 2003.

## **COMMUNITY GOALS 2003**

### **QUANTITATIVE GOALS 2003**

The quantitative community investment goals for the Federal Home Loan Bank of Seattle in 2003 are:

- Fund at least 20 community-based economic development projects with the Economic Development Fund.
- Fund at least \$100 million in affordable multifamily rental projects with the Community Investment Program.
- Commit all of the available funds in the Access program to qualified economic development projects.
- Hold nine seminars on accessing the bank's community lending resources.
- Complete web-based compliance seminars for successful AHP applicants in January and July.

- Increase the dollars invested in the Challenge Fund by \$100,000.
- Increase the dollars invested in the Access program by \$200,000

### **QUALITATIVE GOALS 2003**

The qualitative community investment goals for the Federal Home Loan Bank of Seattle in 2003 are:

- Implement phase 3 of the on-line AHP application.
- Implement the collection of data on ethnicity in the Home\$tart and Home\$tart Plus programs.
- Initiate discussions on implementing the Challenge Fund program on-line.
- Hire an additional compliance analyst and a program/policy staff person.
- Implement the Home\$tart cap of 35 percent if approved by the council and the board.
- Contribute to the development of streamlined AHP regulations.
- Continue to implement programs that were successfully implemented in 2002: Pathways, Title VI, A Home Of Your Own, and the NMTC partnership.
- Develop an initiative to increase the homeownership rate among minority households in the Seattle Bank's region, particularly in urban communities. Look at the issue of homeownership among minority households earning more than 80 percent of area median income. Expand the definition of minority to include African American, Native, Hispanic and other households as appropriate. Explore partnership opportunities with the Urban League in Seattle, Tacoma and Portland.