

# Building Blocks

A Publication of the Federal Housing Finance Board



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## Collateral Requirements Relaxed

# Eased Membership, Advances Rules Designed to Help Small, Rural Banks

The Federal Housing Finance Board on September 10 proposed two rule changes to make it easier for small banks, especially those in rural areas, to join the FHLBank System and, for those that are members, to obtain access to FHLBank System advances.

Rural banks often have more of their assets in farm-related loans rather than in one-to-four family mortgages, which are required to be eligible for FHLBank System membership and may be used as collateral for low-cost housing and community development advances. This disparity of farm-related assets vs. mortgages often makes many small, rural banks ineligible for membership and advances.

The FHFB's proposal amends its definition of "home mortgage loan" for membership requirements, and the definition of "residential real property" in the regulation governing collateral for advances.

"Rural banks operate in a unique economic environment. These changes simply recognize that fact," FHFB Chairman Bruce A. Morrison said.

"By easing rules for both membership and cash advances, we

Board's action eliminates the "50-percent test" for business and farm property.

For FHLBank System members to obtain advances, FHFB regulations require members to present specified types of collateral. Loans secured by combination farm or business properties are

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Comments Requested

## Proposed Regulatory Changes Allows Pacific Islands' Banks to Join FHLBank System

The Federal Housing Finance Board has proposed changing FHLBank System eligibility requirements to allow the U.S. Territory of American Samoa and the U.S. Commonwealth of the Northern Mariana Islands to be considered States under the FHF's regulations, making financial institutions on the islands eligible to join the FHLBank System. The proposal was introduced at the board's September 10 meeting.

Present FHF membership regulations limit FHLBank System membership eligibility to financial institutions that are organized "under the laws of any State or of the United States." The regulation defines State to mean "a State, the District of Columbia, Guam, Puerto Rico and the Virgin Islands of the United States." Technically Guam and the Virgin Islands are U.S. Territories, and Puerto Rico is an U.S. Commonwealth.

Under the Finance Board's proposal, the term 'State' would be defined comprehensively to include all U.S. Territories, Commonwealths and Dependencies that share a political status similar to that of the entities specified in the existing.

The board's proposal includes designating Hawaii as the State in which future members from American Samoa or the Northern Mariana Islands would be deemed to be located for purposes of election of FHLBank directors. Members in American Samoa or the Northern Marianas Islands would be part of the FHLBank of Seattle district.

The Northern Mariana Islands are located about 4,000 miles west of Hawaii. The island-group has six

banks and two savings and loan associations.

American Samoa, located about 2,000 miles west of Hawaii, has two banks.

Comments on this proposed rule

must be received in writing 30 days following notice in the Federal Register, and should be mailed to Elaine L. Baker, Federal Housing Finance Board, 1777 F Street NW, Washington D.C. 20006.

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## Board Approves New Rule For Qualified Thrift Lenders

As part of its on-going strategy to level the playing field for all FHLBank System members, the Federal Housing Finance Board has eased its requirements for non-savings association members to attain Qualified Thrift Lender (QTL) status. The new requirements mean that when such non-QTL members meet the QTL test they can reduce their stock holdings in the FHLBank System, freeing that capital for other purposes.

The FHLBank System membership consists of savings and loan associations, commercial banks, credit unions, and insurance companies. Present laws requires non-QTL members (other than savings associations) to hold more FHLBank System stock than QTL members, if they wish to obtain advances. By virtue of their charters, nearly all savings associations are QTLs.

In 1996, Congress expanded the QTL test to include as "qualified thrift investments" loans to small businesses and other specific categories of loans.

The Finance Board's action brings its QTL test in line with the 1996 changes by defining loans to

small businesses as any commercial loan, or series of loans to the same borrower, in an original amount of \$1 million or less. This new definition allows commercial banks, credit unions, and insurance companies more latitude in meeting QTL requirements.

"The stock-ownership disparity between QTL and non-QTL members has concerned the board for quite some time. This new rule is just one more effort to use the board's administrative powers to modernize the FHLBank System," said FHF Chairman Bruce A. Morrison.

"This is the final step in implementing the QTL amendments made last year by Congress," he added.

The Finance Board's action also eases the QTL certification process. Under a previous rule, only a non-savings association member's chief executive officer could certify the accuracy of information from sources other than the call report used in the QTL calculation. The revised rule allows the CEO to delegate this authority to the chief financial officer, the chief operating officer, or the controller.

(See QTL, page 6)

## Old Communities, New Homebuyers Seen Gaining Under Pilot Programs

*In the past 15 months, the Finance Board has approved pilot programs to test new ways the Atlanta, Chicago and New York FHLBanks can meet members' needs. The following article updates the progress of each pilot program.*

### CHICAGO

The FHLBank of Chicago funded the first home loan under its \$750 million Mortgage Partnership Finance (MPF) pilot program on July 1. The FHLBank had received approval for the pilot program from the Finance Board in January [see *Building Blocks*, Vol. 5 No. 3, spring 1997].

The \$119,700 loan went to Jorge and Sonia Diaz for a three-bedroom house in northwest Chicago. The couple, both immigrants, had a lot to celebrate; Sonia was 8 months pregnant and the closing was only 3 days before the 4th of July, Jorge's birthday. Jorge, a carpenter born in Cuba, and Sonia, from Puerto Rico, celebrated Jorge's birthday and moved into their new home — their first — over the 4th of July weekend.

Under the MPF, FHLBank of Chicago members originate and service mortgages for one-to-four-family homes and maintain reserves against credit

losses. The FHLBank holds the mortgages in its portfolio and manages the interest-rate risk. LaSalle Bank, FSB, a member of the FHLBank of Chicago, originated the Diaz's loan.

"Every MPF loan that closes represents a choice made by a mortgage lender to fund the loan through [the] MPF rather than holding it [in] portfolio or selling it into the secondary market," FHLBank of Chicago President Alex Pollock said.

In late August, the FHLBanks of Atlanta, Des Moines, Indianapolis, New York and Pittsburgh announced they will participate as investors in the pilot program by funding a portion of future MPF loans on a pro-rata basis, sharing the risks and rewards of the program.

Since the initial closing, 20 members of the Chicago FHLBank have been certified for the MPF.

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## Seattle FHLBank Proposes "Rent-to-Own" Pilot Project

The Federal Housing Finance Board published on August 8 a notice in the Federal Register of a proposal from the FHLBank of Seattle to initiate a pilot program that would foster homeownership by facilitating the financing of "rent-to-own" mortgages.

Under the proposed pilot program, the FHLBank of Seattle would invest up to \$25 million in Federal Housing Administration (FHA)-insured loans originated by its members to affordable housing developers and local government agencies. The loans would finance rent-to-own programs for low- and moderate-income households.

In the rent-to-own program,

low- and moderate-income households that lack a downpayment on a home have a portion of each rent payment set aside until the FHA-required 3 percent downpayment is accumulated. The household then assumes the mortgage, which is insured against default by the FHA.

Normally, members and nonmember mortgagees of the Seattle FHLBank that are FHA-approved lenders would accumulate a pool of these mortgages for packaging into Government National Mortgage Administration (GNMA — "Ginnie Mae") securities. The FHLBank of

(See **SEATTLE**, page 8)

### NEW YORK

On August 26, a supermarket project in New York's East Harlem neighborhood began construction after European American Bank, a member of the FHLBank of New York, used the FHLBank's new Community Mortgage Assets Pilot Program (CMAPP) to help finance the future purchase of a participation share of the store's permanent first lien mortgage. Construction of the 50,000 square-foot, full-service Pathmark supermarket is the first, new, large commercial project in 20 years in East Harlem.

(See **PILOTS**, page 4)

The Finance Board approved the CMAPP in July 1996, allowing the FHLBank to purchase participation interests in housing and community development loans that meet the targeting requirements of the FHLBank System's Community Investment Program. The CMAPP also allows the FHLBank's members to purchase participation interests, which means members can take part in housing and community development projects they may not otherwise be capable of funding due to the project's size or the member's size.

"We are proud to join in this important community project. This is precisely the kind of local development that our Community Mortgage Assets [Pilot] Program was designed for – it creates jobs, and jobs create demand for housing, which is our business," said FHLBank of New York President Alfred A. DelliBovi.

The FHLBank will purchase approximately 40 percent of the \$7.2 million permanent loan in about 18 months, according to documents from the FHLBank of New York. Joining the FHLBank and European American Bank in the \$15 million project are Carver Federal Savings Bank, another FHLBank of New York member, and Chase Manhattan Bank Community Development Corporation.

The supermarket is expected to create 200 construction jobs and 200 permanent jobs when it opens next year. Approximately 75 percent of the permanent jobs will employ East Harlem residents.

### ATLANTA

The Federal Housing Finance Board on September 9 issued final approval for the policies, procedures, and controls established by the FHLBank of Atlanta for its \$50 million pilot program, the Affordable Multifamily Participation

Program (AMPP).

The FHLBank of Atlanta received conditional approval in October, 1996 for the establishment of a partnership between the FHLBank and the Community Investment Corporation of North Carolina (CICNC) aimed at increasing the supply of affordable multifamily housing in North Carolina.

Under the AMPP, the FHLBank will purchase participation interests in affordable multifamily housing loans originated by the CICNC membership. Funds received by CICNC members from the sale of participation interests will give those institutions the ability to participate in new projects. Also, in the case of new projects not fully subscribed by CICNC members, the Atlanta FHLBank would participate to the extent necessary for full project funding.

The FHLBank developed the AMPP in response to requests from CICNC members needing liquidity to fund additional affordable-housing projects in North Carolina.

With final approval of the program, the FHLBank can complete work on the six AMPP applications it has already received.

An Atlanta FHLBank representative said details of the first project funded will be announced in late October or early November. The remaining five applications are in the underwriting and due-diligence stages.

A majority of the housing units in the multifamily projects financed by the AMPP will be earmarked for families with income levels no higher than 60 percent of area median income.

The CICNC, created by the Community Bankers Association of North Carolina in 1990, is an affordable housing consortium that facilitates the availability of

long-term, permanent financing for the development of low- and moderate-income housing throughout the state. CICNC's membership consists of 90 thrifts and commercial banks, 78 of which are members of the FHLBank of Atlanta. With \$310 billion in assets, CICNC's membership consists primarily of smaller financial institutions -- 77 percent of whom have assets under \$250 million. All of the banks and thrifts located in North Carolina are CICNC members.

The consortium provides construction/rehabilitation bridge financing and long-term funding for affordable multifamily housing projects. In its 6-year history, CICNC has funded or committed to fund approximately \$45 million for 53 housing projects, producing 2,645 units of affordable housing. □

(R U L E S, from page 1)

properties lack the characteristics of permanence and regular use generally associated with typical combination properties, such as a family farm or a family business.

"Eliminating the 50-percent test should allow a greater number of loans secured by combined-use assets to be considered for membership and advances collateral," Morrison explained.

The Finance Board's action stems from a meeting in February when FHLBank System members and the American Bankers' Association suggested to the FHFB staff several changes to FHFB rules that would increase rural banks' access to the FHLBank System.

Written comments on the proposed changes will be accepted until November ..., and should be addressed to: Elaine L. Baker, Executive Secretary, Federal Housing Finance Board, 1777 F St. NW, Washington DC 20006. □

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## Two Take Top Honors

# AHP Projects Receive National Recognition

Seven FHLBank System AHP projects are recipients of the prestigious Maxwell Award of Excellence for the Production of Low-Income Housing. The awards are presented annually by the Fannie Mae Foundation to honor public- and private-sector institutions for expanding housing opportunities for underserved families and individuals and enhancing the quality of life in their neighborhoods and communities.

Maxwell Awards are presented in three categories: homeownership, rental, and special needs. Within each category there are five levels of recognition: awardee, alternate awardee, finalist, special mention, and honorable mention. The foundation received more than 160 applications, with 20 awards being

presented at the awardee, alternate awardee, or finalist level.

Two AHP projects were named as awardees, one as an alternate awardee, and four as finalists.

### **HOMEOWNERSHIP**

In the homeownership category, "The Nehemiah Project," sponsored by the Nehemiah Group, Washington, D.C. was named an awardee.

This \$2.9 million project was the work of nine community groups and nine lenders to redevelopment four vacant city-owned lots along the major commercial corridor of the Columbia Heights neighborhood of Washington, D.C. The Nehemiah Project encompasses 32 new apartments in a multifamily building for cooperative ownership, 15 new

townhouses for homeownership, a mixed-use building combining retail space with 14 condominium units, and an 18,000-square-foot neighborhood retail center.

The project was assisted by a \$300,000 AHP subsidy from First Union National Bank of Virginia, a member of the FHLBank of Atlanta.

Also in the homeownership category, the "Home Ownership Project" of the Fort Wayne Neighborhood Housing Partnership, Inc. was named an alternate awardee. This \$2 million project received a \$96,000 AHP subsidy from Fort Wayne National Bank, a member of the FHLBank of Indianapolis.

### **RENTAL**

The "New Friendship Village Community" project, sponsored by the Blue Hills Home Corp., Kansas City, Missouri, was named as a finalist in the rental category. This \$7 million project, consisting of 145 units, received a \$360,000 AHP subsidy from Mark Twain Bank, a member of the FHLBank of Des Moines.

### **SPECIAL NEEDS**

In the special needs category, the "Carol Haynes Apartments" project in Los Vegas, Nevada, sponsored by Accessible Spaces, Inc., St. Paul, Minnesota, was named as an awardee.

The project is Nevada's first accessible, affordable housing for very low-income individuals with severe physical disabilities, primarily traumatic brain injuries. Residents of the 24-unit facility live in private one- and two- bedroom apartments and direct their own

(See **AWARDS**, page 7)

## **FHFB on the Internet**

The Federal Housing Finance Board, regulator of the 12 FHLBanks, recently joined the cyberworld at <http://www.fhfb.gov> where visitors can access information and data about the Finance Board and its operations.

This includes an FHFB organization chart and listing of program responsibilities, along with information on the FHLBank System's affordable housing and community investment programs, community investment cash advances, and the Community Support Program.

The website also contains the latest data from the Monthly Interest Rate Survey, as well as copies of press releases, speeches, the monthly newsletter "Building Blocks" and other publications, and links visitors to the Office of Finance and homepages of the FHLBanks. "What'sNew" offers the most current information on FHFB activities.

# Finance Board, SBA Host Symposium on SBIC Investments

On June 30, the Federal Housing Finance Board and the Small Business Administration cosponsored a symposium on the Federal Home Loan Bank System's new authority to invest in the SBA's Small Business Investment Companies (SBICs).

Approximately 85 people attended the one-day forum in Washington, with representatives from each of the 12 FHLBank districts, the SBA, the Office of the Comptroller of the Currency, SBIC managers, and the FHLBank System's Office of Finance.

In 1958 Congress authorized the SBA to license SBICs to stimulate the flow of equity capital and long-term loan funds into small businesses to help them grow and develop. Today there are approximately 280 SBICs, about 70 of which are affiliated with financial institutions.

In the symposium's opening session, Finance Board Managing Director William W. Ginsberg discussed last year's legislative change that specifically authorizes FHLBanks to invest in SBICs. The change was sought, Ginsberg explained, because SBICs will "function with and through member institutions," making SBIC investments compatible with both the mission and the strengths of the FHLBank System. In addition, the SBA's experience in small-business lending will be blended with that of

the FHLBanks to meet the borrowing needs of local markets.

Finance Board Chairman Bruce A. Morrison told participants that the Finance Board is gathering ideas on ways for the FHLBanks to use the new investment authority. The Finance Board is accepting proposals for establishing guidelines on using SBICs to connect the capital markets with communities needing credit. The FHLBanks, Morrison suggested, may be able to collaborate with their members or create a consortium of members interested in the SBIC program.

In later sessions, SBA representatives reviewed the history and structure of the SBIC program, highlighted the private-public aspect of the program, and discussed how the FHLBanks and the SBA can work together to develop local economies through SBIC investments.

Luncheon speaker Julie Williams, chief counsel at the Office of the Comptroller of the Currency, focused on the new CRA regulations, effective July 1, that gave financial institutions CRA credit for investments in SBICs. "Responsible small business lending and investing makes good business sense for banks," Ms. Williams said, because banks can earn CRA credit and enter new lending markets.

In later sessions, additional

speakers reviewed in more depth the differences in how the old and revised CRA regulations treat SBIC investment, and discussed how new laws put in place at SBA have strengthened the program to improve safety.

Among the other speakers were SBIC managers from six states, including James O'Donnell of CFB Venture Funds and John Richardson of Mellon Ventures, who discussed tactics employed by bank-affiliated SBICs, particularly how financial institutions can profit from basic industries and an expanded customer base.

The law authorizing FHLBanks to invest in SBICs also ended the Specialized SBIC program, which licensed SBICs that targeted investment at socially or economically disadvantaged firms. According to William Kirk, an attorney with Reid & Priest, and Thomas Hunt of Capital Dimensions, Inc., the revised law allows approximately 80 existing SSBICs to be grandfathered into the SBIC program.

The level and intensity of interest in SBICs at the June symposium has encouraged the Finance Board and the SBA to plan additional regional meetings on SBIC investments in the coming months, which will be chaired by Saunders Miller, a senior advisor at SBA. He can be reached at (202) 205-3646.

(QTL, from page 2)

chief financial officer, the chief operating officer, or the controller.

The rule also changes the FHLBanks' annual, non-savings

association, QTL certification period. Under the new rule, FHLBanks will make their determinations using data as of

June 30, rather than December 31, and must make the determination no later than October 31, rather than April 15.

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## Board Chairman Names New Managing Director; Cites Extensive Development Background

Federal Housing Finance Board Chairman Bruce A. Morrison has appointed William W. Ginsberg as the Finance Board's managing director to serve as the organization's chief operating officer in charge of day-to-day operations.

Ginsberg brings to the Finance Board a long career specializing in local economic development. As a chief executive in the public and not-for-profit sectors, a practicing attorney, and a senior government official at both the local and national levels, he has helped promote public/private partnerships to create community development projects.

"Will Ginsberg has spent his career developing innovative partnerships between the public and private sectors at both the local and national levels," said Chairman Morrison. "With his wealth of experience in housing and economic development and proven management skills at the highest levels of government, he brings new ideas and energy to the management of the Finance Board."

A graduate of the Columbia University School of Law in New York, Ginsberg served from 1984 to 1988 as development administrator of the City of New Haven, Connecticut, a position equivalent to that of a deputy mayor, where he was in charge of all housing and economic development activities of city government. From 1988 to 1994 he was president and chief executive officer of the Science Park Development Corporation, a major public-private economic development project in New Haven

focusing on the development of technology-based businesses.

In February 1994, Ginsberg was appointed Assistant Secretary for Economic Development at the U.S. Department of Commerce, in charge of its Economic Development Administration, a national program of economic development assistance to local public and not-for-profit institutions serving urban and rural areas of economic distress. Fifteen months later he was named Chief of Staff to the late Secretary of Commerce Ronald Brown.

Ginsberg also has international development experience. For one year until coming to the Finance

Board, he served as acting Assistant Secretary in the International Trade Administration of the U. S.

Department of Commerce. In that position, he promoted international investment by U.S. businesses and helped formulate U.S. international trade and commercial policy.

A graduate with honors from Trinity College in Hartford, Connecticut, Ginsberg has done graduate study in history at Cambridge University in England. He lives in Washington D.C. with his wife, Ellen Kelly Ginsberg, and their two children.

Ginsberg's appointment was effective April 16.

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### (AWARDS, from page 5)

services and therapies. They also share case management and 24-hour-a-day personal care by 30 staff members. This arrangement enables residents to live outside of group homes or institutions and reacquire the skills they need, while saving families and taxpayers money by sharing services and avoiding institutionalization.

The \$1.7 million project received an AHP subsidy of \$1 10,000 from Norwest Bank, a member of the FHLBank of San Francisco.

Three additional AHP projects were named as finalists in the special needs category:

- The \$3 million "St. Andrew's Bungalow Court" project, sponsored by the Hollywood Community Housing Corp., Hollywood, California, received an AHP subsidy of \$121,000 from Citibank FSB, a member of the FHLBank of San Francisco. The project created 16

rental units for formerly homeless individuals with HIV/AIDS.

- Resources for Community Development, Berkeley, California, was the sponsor for "The Harrison" project to remodel a dilapidated hotel in central Oakland, California, into 80 single-room-occupancy units for HIV/AIDS residents with mental illness or substance abuse histories. The \$5.8 million project received an AHP subsidy of \$529,000 from first Nationwide, a member of the FHLBank of San Francisco.

- "Don Miller Home," a \$1.1 million project sponsored by St. Ambrose Housing Aid Center, Inc., Baltimore Maryland, created eight rental units for very low-income families where the head-of-household has HIV/AIDS. The project received a \$1 08,000 AHP subsidy from American National Bank, a member of the FHLBank of Atlanta.

# RESOURCES

**The Office of the Comptroller of the Currency** announced recently the availability of its new on-line “Community/Consumer Organization Database” through the Internet, located at the agency’s website <http://www.occ.treas.gov>. This database establishes a centralized public information source to help interested parties identify, learn about, contact, and draw on the expertise of community and consumer organizations.

“Community Impact Through Neighborhood Partnerships” is a recently publication by the **United Way of America** profiling several communities and their successful community development efforts in revitalizing low-income neighborhoods. It also captures the exciting new roles that United Way

is playing in local partnerships that support asset-based community development efforts in low-income neighborhoods. The 48-page booklet costs \$15. For more information, contact Eric Muschler, United Way of America Community Impact Group, 701 North Fairfax Street, Alexandria, VA 223 14-2045, or call (703) 836-7112, ext. 538.

**America’s Community Bankers** released in March a publication, “Models That Work,” which identifies and promotes 50 examples of successful housing and community development programs. The publication contains simple step-by-step explanation of how local savings institutions, nonprofit organizations and community-based housing groups are working with local partners to provide innovative

strategies for homeownership. The free, 137-page booklet is available by writing to Sarah Welborne, America’s Community Bankers, Suite 400, 900 19th Street NW, Washington, D.C. 20006, or by calling (202) 857-3 100.

The premiere issue of “Mainstreet,” a report for the **Local Initiatives Support Corporation’s** Phoenix office was published in April. The publication updates supporters on LISC’s latest developments and accomplishments. For information, contact David Yniguez, LISC Phoenix, Suite 1610, 111 West Moore, Phoenix, AZ, 85003, or call (602) 417-1421.

**The Woodstock Institute’s** “Reinvestment Alert” for March 1997 describes the high costs that low-income people pay for basic financial services. This research compares the costs of using check-cashing outlets versus basic financial services at banks or savings and loans. The 9-page booklet is free by contacting The Woodstock Institute, Suite 550, 407 South Dearborn Ave., Chicago, IL 60605, or by calling (312) 427-8070.

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(SEATTLE, from page 3)

Normally, members and nonmember mortgagees of the Seattle FHLBank that are FHA-approved lenders would accumulate a pool of these mortgages for packaging into Government National Mortgage Administration (GNMA – “Ginnie Mae”) securities. The FHLBank of Seattle proposes to provide these lenders with an alternative by immediately buying these loans, saving the lender from having to hold on to the loans until a sufficient quantity have been accumulated for Ginnie Mae pooling. Additionally, the Seattle FHLB will provide favorable pricing and pay a higher servicing fee than that paid by Ginnie Mae.

The Seattle FHLBank indicates that the proposed pilot program,

with minimal risk to the FHLBank, will attract more rent-to-own programs, since the costs of these programs have generally discouraged lenders from offering them. In addition, the pilot will enable members of the Seattle FHLBank to transact CRA-eligible lending at more favorable rates, and by providing a secondary market for these loans, will also enhance the flow of credit to an under-served segment of the mortgage market.

Finance Board staff will present the proposal to the board for its consideration after the 30-day notice for public comment expires.

For more information on the Seattle pilot program, contact Judy Daley, community investment officer at the FHLBank of Seattle, at (206) 340-8708. □

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