// Building Blocks
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Marketing Efforts Prove Successful for CIP in 1991

Several of the Federal Home Loan Banks did exceptionally well this past year with their Community Investment Programs (CIP) due to aggressive marketing campaigns.

For example, the Federal Home Loan Bank of Chicago reached and exceeded its 1991 target by 485 percent – the largest percentage among the 12 Federal Home Loan Banks. Another example is the FHLBank of Atlanta, which had the largest number of participants (30) in the Program in 1991. Furthermore, Atlanta is the only Bank in the System that had CIP activity every month last year.

Charles Hill, Executive Vice President at the Chicago Bank, said that the Bank's marketing approach included showing the management of financial institutions that borrowing CIP funds is a sound community investment and is sound financial management.

Robert Warwick, Vice President of Community Investment Services at the FHLBank of Atlanta, said that "success has not been instant" but is based on marketing efforts over an extended period. The FHLBank of Atlanta's marketing efforts consisted of a direct mail campaign to members, careful follow

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Ranks Use CIP for Bridqe Loan Financing

The Federal Home Loan Banks of Chicago and Cincinnati have found an innovative way to use Community Investment Program (CIP) funds.

The Chicago Bank has adopted a special amortized advance program that finances bridge loans for equity partners who use Low-Income Housing Tax Credits.

For example, in one project to rehabilitate deteriorating housing, Security Bank of Milwaukee, Wisconsin, provided funds to the Housing Partnership Corporation. Several lenders participated with Security Bank to share the liability for the advance. In this instance, a CIP advance of $468,384 was used to assist an equity fund to which investors were gradually contributing. The lending instrument consisted of seven advances designed to match the pay-in schedules of the partners, both in the amount and in maturity date. The Housing Partnership Corporation was able to charge a 2 percent origination fee and a 2 percent mark-up over its cost to finance the bridge loans.

The advances funded the equity financing for Assisi Homes, which include 50 units of housing for Low-Income Housing Tax Credit eligible families – those whose incomes do not exceed 60 percent of the median income for Milwaukee County.

The Chicago Bank also now offers amortizing advances with multiple pay-ins at a single rate.

To date, the FHLBank of Chicago has made three CIP advances for bridge loan financing projects.

The Federal Home Loan Bank of Cincinnati has also recently used CIP funds for bridge loan financing of an Affordable Housing Program (AHP) project. Ohio Savings Bank in Cleveland provided bridge financing to support the development of 140 units of rental housing, 105 of which are for very low-income households. The Cleveland Housing Network acquired and renovated several FHA/VA repossessed properties located in 13 Cleveland neighborhoods.

Permanent financing for the project involved a combination of first mortgage financing using AHP funds in conjunction with proceeds from the sale of Low-Income Housing Tax Credits. To support the sale of the tax credits, a $2.3 million bridge loan was provided by Ohio Savings.

The loan was funded with a series of four CIP advances with terms corresponding to annual contributions by investors. AHP subsidy was used with each CIP advance to establish an interest rate of 5 percent for the bridge financing. ■

Loan Consortium and AHP Work Together to Provide Housing

The popularity of affordable housing loan consortia has soared in recent years, and their importance in financing affordable housing has grown. In fact, the 1992 District priority for both the FHLBanks of Des Moines and New York is to focus on projects that involve affordable housing loan consortia.

Loan consortia are comprised of financial institutions that specify an amount of funds to be placed in a common pool of capital for financing affordable housing. Affordable housing loan consortia enable financial institutions to share the risk of investing in a low-income project.

The oldest consortium, the Savings Associations Mortgage Company, Inc. (SAMCO), was established in 1971 to increase affordable housing for low- and moderate-income people in the state of California. SAMCO began as an 11-member savings and loan consortium; it is currently comprised of more than 100 California financial institutions dedicated to providing financing for low-income housing projects.

Since 1971, SAMCO has provided a total of more than $274 million in loans providing more than 9,000 affordable housing units throughout California.

Notably, SAMCO has yet to experience a delinquency or default. SAMCO loans are for a term of 30 years with a maximum 75 percent loan-to-value ratio.

In 1990, SAMCO added 37 new members and committed $51 million in permanent financing for 25 multifamily projects.

SAMCO's use of the Federal Home Loan Bank of San Francisco's Affordable Housing Program funds has enabled SAMCO to fund several worthwhile projects at reduced interest rates.

The AHP funds go directly into SAMCO's loan pool. SAMCO then provides the AHP funds for various nonprofit projects that meet program guidelines.

SAMCO requires that each project receiving AHP funds provide at least 20 percent of its units to families earning less than 50 percent of median income, and the remaining 80 percent to families earning less than 80 percent of median income.

In 1990, over $2.5 million in subsidized AHP funds were provided to SAMCO. In 1991, the Finance Board approved $ 1 million in the first round of AHP applications and $1.2 million in the second round for SAMCO. The loans are subsidized by the Federal Home Loan Bank of San Francisco for the first 10 years. Loans using an AHP subsidy have a 6 percent cap for the first 10 years and revert to SAMCO's rate for the following years.

To date, SAMCO has provided AHP funds for three projects and has commitments to fund 12 other projects.

One example of SAMCO's use of AHP involved the Low-Income Housing Fund. The Fund, on behalf of the National Farm Workers Service Center, Inc. (NFWSC), a nonprofit affiliate of the United Farm Workers of America, submitted an application under SAMCO's FHLBank Affordable Housing Program for $1.5 million to finance the Center's 56-unit apartment complex in Tehachapi, California. This allowed NFWSC to provide 100 percent of the units in this new construction project to very low- and low-income households – 25 percent of the units are for households earning less than 50 percent of the median income, and 75 percent are for households earning less than 70 percent of the median income. The project was developed and constructed using the Center's own funds, while SAMCO's permanent loan is being used to recycle the Center's construction funds for further development of affordable housing.

Another example is the Paula Street Apartments – a new construction family apartment project in San Jose. The project consists of 21 two-bedroom units – six of which will be targeted for very low-income households and 15 for low-income households. First San Jose Housing, a nonprofit housing development corporation, submitted an application under SAMCO's FHLBank Affordable Housing Program for $924,218 and received $1.3 million from the City of San Jose.

SAMCO's only criterion for membership is the payment of $1,000, SAMCO's members ate sent loan applications once a month for affordable housing projects that have already been approved by its loan committee. Participation in a specific project loan is voluntary, as is the participation amount.

A SAMCO regulatory agreement controls the affordability of the projects, sets forth reserve and insurance requirements, and also requires quarterly and annual financial reports.

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Charles Goetze, SAMCO's executive director, feels that there are a number of advantages to belonging to a consortium. For instance, Goetze states that members have the opportunity to draw on the specialized expertise and experience of SAMCO's staff, who have worked on a number of innovative and unique projects. "Having cities and municipalities work with one organization and [therefore] know one set of rules and regulations is helpful," according to Goetze.

He also cites the fact that the more well-established a consortium becomes, such as SAMCO has, the more confidence there is in doing business with that consortium. Another advantage is that SAMCO not only serves as a lender, but also as a resource to members and non-members. SAMCO helps members produce affordable housing development plans as well as provides support to members. SAMCO also responds to requests for information from those interested in developing their own consortia in other states.

As for SAMCO's future, Goetze says that he is looking forward to expanding the scope of affordable housing to include more innovative, rural, and scattered-site projects. He also is looking at the possibility of selling more loans to secondary markets. ■

The Enterprise Foundation of Columbia, Maryland, recently conducted a survey of 14 nonprofit affordable housing lending consortia. Major findings were the following.

- Most consortia are recently formed and only a few have long track records with seasoned portfolios.
- Most lending consortia are only offering multifamily loan products, while only a few are doing both single-family and multifamily, and a few are doing single-family exclusively.
- Only a few lending consortia are organized with matching subsidies from public sources.
- Lending consortia have just begun to negotiate secondary market relationships.
- Loan performance on seasoned portfolios is excellent.
- Lending consortia are reaching a variety of income levels.
- Only a few organizations are profitable, most are subsidized by lender contributions.
- Loan volumes and unit production need to improve to meet growing demand.

The Enterprise Foundation also pointed out eight elements of a well-structured lending consortium. These are:

- An incorporated entity to perform centralized loan processing and marketing;
- A variety of short-term and permanent mortgage loan products for both multifamily and single-family projects;
- One-stop processing of conventional and government subsidized loans;
- Underwriting standards that are realistic and practical for low-income borrowers and housing developers;
- Up-front secondary market take-outs;
- A loan fee structure that minimizes the need for lender-charitable donations;
- A pluralistic board composition that includes meaningful representation of low-income borrowers and housing developers; and
- Enough volume and variety of products to justify the need for a shared-risk consortium.

Housing Tax Credit Extended

In a last minute effort, Congress extended the Low-Income Housing Tax Credit for six months. The delay was a result of congressional hesitancy to open up any possibly contentious discussion on tax legislation. Instead, Congress extended the five-year-old housing tax credit through legislation (H.R. 3909) extending certain expiring provisions.

The credit can only be used for units serving people with incomes at or below 60 percent of the area median. To receive the credit, two targeting tests must be met: at least 20 percent of the units must be for households with incomes at or below 50 percent of the area median, or at least 40 percent must serve households with incomes at or below 60 percent of the area median. At least 10 percent of the credits must be used in projects sponsored by nonprofit organizations.

The tax credit has worked quite successfully with the Affordable Housing Program and is an important additional source of funding for AHP rental projects. In most projects with tax credit financing, the amount of tax credits far exceeds the amount of AHP subsidies. Tax-credit financing was over $42 million in the first 1991 funding round, compared with total AHP subsidies on rental housing of $19.5 million. Of the 194 projects approved in this round, 105 were rental, and 39 of the rental projects had tax-credit financing.

The tax credit will have to be extended again in another six months. However, there are currently House and Senate bills (H.R. 413, S. 308) that would permanently extend the Low-Income Housing Tax Credit.

HOME and HOPE Funds Approved

In September, Congress agreed on a fiscal 1992 housing appropriations bill that sets spending levels for the HOME and HOPE programs. The House/Senate conference allocated $1.5 billion for HOME. The goals of HOME are to provide housing for low- and very low-income renters/owners, to assist in developing public/private/nonprofit partnerships, and to provide technical assistance to support state and local affordable housing efforts. Interim regulations for HOME were published on December 16, 1991, in the *Federal Register.*

The spending bill also provided FY 1992 spending levels for HOPE (Homeownership and Opportunity for People Everywhere), including $161 million for public and Indian housing and $95 million each for multifamily units and single-family homes. The HOPE programs authorize funds for planning and implementation grants to help develop and carry out homeownership programs in states and localities.

The Administration's FY 1993 budget proposes $700 million for HOME, and includes under the HOPE program $450 million for public and Indian housing, $325 million for multifamily units, and $225 million for single-family homeownership.

GSE Bills May Be Considered

The Senate Banking, Housing, and Urban Affairs Committee is working on a draft Government-Sponsored Enterprise (GSE) bill, which is expected to be introduced sometime during this session.

The companion bill, H.R. 2900, was passed by the House on September 25 and was referred to the Senate Banking, Housing, and Urban Affairs Committee.

Both bills would mandate a study of the Federal Home Loan Bank System. Topics in this study include: the appropriate capital standards for the System; the advantages and disadvantages of expanding credit products and services for member institutions; the advantages and disadvantages of more measures to expand the role of the System as a support mechanism for community-based lenders and to reinforce the role of the System in housing finance; the current and prospective effect of the System on the availability and affordability of housing for low- and moderate-income households and on the relative availability of housing credit across geographic areas; and the impact that a reduction in FHLBanks would have on the effectiveness of affordable housing programs.

The House and Senate bills also require Fannie Mae and Freddie Mac to set affordable housing goals. For 1992 and 1993, the goals require Fannie Mae to make mortgage purchases of not less than $2 billion and Freddie Mac of not less than $1.5 billion. Both bills require that one-half of the mortgage purchases be directed toward single-family housing and one-half toward multifamily housing.

Forty-five percent of the multifamily housing must be affordable to families whose incomes do not exceed 80 percent of the area median, and 55 percent must be housing in which at least 20 percent of the units are affordable to families whose incomes do not exceed 50 percent of the area median or at least 40 percent of the units are affordable to families whose incomes do not exceed 60 percent of the area median income.

Forty-five percent of the single-family housing must be affordable to families whose incomes do not exceed 80 percent of the area median and who live in census tracts where the median income does not exceed 80 percent of the area median and 55 percent must be for mortgages for families whose incomes do not exceed 60 percent of the area median. □

Studies Highlight Housing and Homelessness

Several studies/reports focusing on housing and homelessness were released at the end of 1991. The following is a listing and brief summary of these.

A Place to Call Home: The Low-Income Housing Crisis Continues is a report recently released by the Center on Budget and Policy Priorities and the Low-Income Housing Information Service. This report states that the supply of affordable housing for low-income households has decreased, the number of people living in poverty has increased, and rising housing costs consumed a larger amount of the poor's income.

The report also states that the affordable housing crisis has no boundaries and that about half of all low-income white, black, and Hispanic households spent at least 50 percent of their incomes on housing in 1989. In 1989, 81 percent of low-income people living in inner cities, 80 percent of low-income suburban households, and 65 percent of low-income households in non-metro areas spent at least 30 percent of their incomes on housing costs, according to the report. Furthermore, the report concludes that there is a shortage of affordable housing in every region of the U.S., and low-income individuals who are employed and unemployed also have housing affordability problems.

The report concludes that low-income households tend to live in housing that is deficient or overcrowded. It also finds that most low-income households are not aided by government housing subsidies. Only 22 percent of all low-income households (owners and renters) received a housing subsidy in 1989, according to the report.

In addition, the report says that low-income households receive more cash assistance than housing assistance. However, the report states cash assistance has proven to be inadequate to meet housing and other basic household costs.

This report can be obtained from the Center on Budget and Policy Priorities, 777 N. Capitol Street., N.E., Suite 705, Washington, D.C. 20002, (202)408-1080.

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The Joint Center for Housing Studies at Harvard University examined *The State of the Nation's Housing*. The study finds that housing low-income people remains difficult because of the persistence of poverty and the loss of low-cost units. As found in the report above, the study states that the majority of low-income families must devote a large share of their low incomes to pay unsubsidized rents.

The growth of low-income households was greater than the increase in housing assistance resources; this increased the population of unassisted low-income renters from 4.2 million in 1974 to 5.5 million in 1985, according to the study. Furthermore, "in 1989 two-thirds of all poor renters remained outside the housing assistance network,'' the study concludes. Among those receiving no housing assistance, the study states that 77.2 percent (3.3 million) of low-income renters and 54.4 percent (2.2 million) of low-income homeowners paid more than half of their incomes in 1989.

"he study states that at the low end of the market, there is no evidence of substantial rent reductions. Because of the decrease in multifamily construction and the subsequent failure to accommodate household growth and inventory losses, vacancy rates will decline and the rental market will tighten. "Rising rents will trigger new multifamily production, but without expanded and targeted housing subsidy efforts, any increase in construction will do little to alleviate the housing burdens of the nation's poor,'' the study states.

This study can be obtained by contacting the Joint Center for Housing Studies, Harvard University, 79 John F. Kennedy Street, Cambridge, Massachusetts 02138, (617)495-7908.

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The National Congress for Community Economic Development recently conducted a study, *Changing the Odds,* highlighting the achievements of 1,160 Community-Based Development Corporations (CDCs). For purposes of this study, CDCs were defined as private, locally based nonprofit organizations actively involved in one or more of three types of community development – affordable housing, commercial/industrial, or business enterprise.

New CDCs are forming and becoming active at a very fast pace. The study states , "In the past five years, there has been a 60 percent increase in the level of housing production done by CDCs," and in the past three years, production has increased by almost 40 percent.

The study states that 88 percent of CDCs have created affordable housing and have produced almost 320,000 units of housing for very low-income people. It also concludes that CDCs are targeting their services to very low- and low-income people within specific geographic areas.

According to the study, about 80 percent of the CDCs surveyed targeted services to low-income individuals and 60 percent targeted services within geographic areas, including inner-city neighborhoods, rural areas, and small towns. More specifically, the study concludes that 64 percent of the CDCs surveyed service urban areas, 19 percent serve rural communities, and 17 percent focus on both.

The study also points out that 95 percent of all rental units and 88 percent of owner-occupied housing developed by CDCs are targeted to people with incomes below 80 percent of the area median.

Contact the National Congress for Community Economic Development at 1875 Connecticut Avenue, N.W., Suite 524, Washington, D.C. 20009, (202)234-5009, for a copy of this document.

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A Status Report on Hunger and Homelessness in America's Cities: 1991, published by the United States Conference of Mayors, surveyed 28 major U.S. cities.

In the cities surveyed, requests for shelter by homeless families increased by an average of 17 percent. For homeless families alone, the report states that 15 percent of the requests have gone unmet. In 78 percent of the cities, shelters must turn away homeless families due to a lack of resources, according to the report.

Families with children and substance abusers were mentioned most frequently, each by three-fourths of the cities surveyed, as the groups of homeless people for whom shelter and other needed services were particularly lacking.

The report also concludes that cities identify affordable permanent housing as the most needed service among families.

In the report, city officials made several recommendations on how to begin to eliminate homelessness and hunger. These include: a substantial federal affordable housing program; job creation and expanded job training; full employment; increases in the minimum wage; reform of the welfare system; and full funding for the Stewart B. McKinney Homeless Assistance Act.

To get this report contact the U.S. Conference of Mayors, 1620 Eye Street, N.W., Washington, D.C. 20006, (202)293-7330.

The Urban Institute and the Russell Sage Foundation recently published *Over the Edge: The Growth of Homelessness in the 1980s.* The study concludes that in 147 cities with populations over 100,000, homeless rates rose from 6 per 10,000 of the city's population in 1981 to almost 18 per 10,000 in 1989.

During the 1980s, according to the study, as housing affordability decreased, the risk of homelessness increased. The study says that there was not enough rental housing in the existing rental stock in many metropolitan areas to house all renters in the 1980s, even if they could pay the asking rent. As other studies have found, because rents increased and renter household incomes declined, low-income renters committed increasing proportions of their incomes to housing costs.

The study also states that the increase in poverty and inequality in the 1980s, as well as high rates of unemployment in the first part of the decade, added to the problem of homelessness.

Furthermore, the study states that changes in public benefits may have contributed to the increase in homelessness in the 1980s. According to this study, some programs, such as Aid to Families with Dependent Children, were not adjusted for inflation and thus, lost some of their purchasing power, and other programs, such as food stamps and SSI, changed requirements that excluded certain people who had once been eligible.

The study offers a number of recommendations based on its findings, including increasing housing subsidies for low-income people, targeting these subsidies to the very poorest households, and making housing subsidies an entitlement. Other recommendations include reducing housing discrimination and providing training and education.

This study can be obtained from The Russell Sage Foundation, Publications Department, 112 East 64th Street, New York, New York 10021. ■

Marketing Programs Boost CIP Activity in 1991

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up, tracking leads, and personal visits to members and non-members. Warwick stated that the Bank's staff visited about 100 members and 50 to 60 prospective members last year.

Warwick also praised the willingness of the Bank to include both AHP and CIP in its overall business development campaign. "The merged efforts generate more business for all of the Bank's products," according to Warwick.

The FHLBank of Chicago has provided CIP funds for a number of projects. One example is Argo Savings, which used a CIP advance of $71,900 to extend the commercial mortgage on a restaurant located in a lower-income community.

First Savings Bank of Greenville, South Carolina, an Atlanta Bank member, is providing funds for a first-time homebuyer program for families with incomes not exceeding 115 percent of the area's median income. The member has drawn down $500,000 from the Bank's Community Investment Fund from a pool of $2 million set aside for this project.

The Federal Housing Finance Board is pleased with the increasing use and success of the Community Investment Program. Several of the Banks made great strides with CIP in 1991 as a result of well-planned marketing. These achievements demonstrate that CIP is a much-needed and viable source of low-cost funds that will help many communities and individuals in the years to come. ■