Building Blocks

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Nearly 6,000 Units Nationwide

Seasonal Workers, Elderly, Homeless Benefit from AHP Rural Rental Projects

The lack of decent, affordable housing in America's rural areas is well-documented, with housing needs in rural areas rivaling those of the nation's inner-cities. These needs are particularly acute for rural renters, as reported in a recent Harvard University study.

The university's Joint Center for Housing Studies reported that in 1993, 13.9 percent of all U.S. households fell below the poverty line, but for households in nonmetropolitan areas, that figure was 16.1 percent. The numbers were even higher for nonmetropolitan renter households, with 30 percent of these households living below the poverty line.

Further, the study found that in 1991, 26.2 percent of nonmetropolitan renter households paid more than 50 percent of their income for housing, and 21.6 percent of nonmetropolitan renter households lived in structurally inadequate housing.

Providing affordable rental housing to America's rural areas is a complex problem. While much new or rehabilitated low-income housing in urban areas is developed by nonprofit sponsors, rural areas tend to have fewer nonprofit housing developers. In addition, rural nonprofit housing developers are often hampered by their small size or unfamiliarity with large-scale multifamily developments.

Local governments in urban areas often participate in the development of low-income housing. But again, unfamiliarity with the process and lack of financial resources may lead to no role or only a small role for local governments in rural multifamily development.

With increasing needs but limited resources, many rural nonprofit and for-profit housing developers have been obtaining assistance from the AHP. Since its creation in 1990, the AHP has contributed more than $26 million in subsidies toward rental housing for the nation's thousands of rural very-low- and low-income households. (See chart, "AHP Rural Rental Projects," page 2.) These funds have assisted 200 projects, which created or rehabilitated 5,882 multifamily rural housing units. The projects have an estimated development cost of nearly $335 million. Of the 5,882 rural rental

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units, 4,942 are for very-low-income households, with the remainder rented by low- and moderate-income households. Within the total, 1,695 are occupied by an elderly household and 853 by a household with a physically or mentally challenged member. In addition, 791 units are for homeless households and 384 units are used to meet single-room-occupancy needs.

A detailed example of the diversity of groups served by the AHP is a 1992 project for seasonal workers in Nampa, Idaho. In that project, West One Bank, Nampa, Idaho, used an AHP direct subsidy of $100,000 to help build 25 units of housing for single-parent households and homeless households living in substandard conditions. Employees working on this project are required to be bilingual.

As an agricultural area, Nampa attracts a large number of migrant and seasonal farm workers. Developers of this $1.6 million effort report that the majority of tenants are seasonal workers.

The project's sponsor and developer is Mercy Housing, Inc., of Nampa. Project manager Sister Mary Terese Tracy, RSM, who is also a member of the Federal Home Loan Bank of Seattle's Affordable Housing Advisory Council, said the project was not begun as one for seasonal workers, but evolved that way after a local coalition of affordable housing advocates completed a housing survey of the town's northern area, which contains a large number of substandard houses.

"There was a tremendous need, especially for families," Sister Terese said. "The greatest need was for homes for larger households."

"It's programs like [the AHP] that make it affordable, without that subsidy it wouldn't work," she added.

AHP RURAL RENTAL PROJECTS
as of March 22, 1995

District	Projects	Development costs (in thousands)	Subsidy (in thousands)	Units
Boston	**12**	**$ 8,234**	**$ 828**	**203**
New York	**16**	**30,807**	**2,706**	**377**
Pittsburgh	**19**	**35,787**	**2,553**	**654**
Atlanta	**13**	**22,900**	**3,162**	**429**
Cincinnati	**17**	**22,244**	**2,168**	**426**
Indianapolis	**6**	**7,266**	**535**	**61**
Chicago	**6**	**5,166**	**514**	**104**
Des Moines	**26**	**26,354**	**1,676**	**733**
Dallas	**17**	**14,935**	**2,103**	**426**
Topeka	**22**	**45,754**	**2,969**	**942**
San Francisco	**7**	**31,892**	**1,995**	**413**
Seattle	**39**	**83,644**	**5,126**	**1,114**
Totals	**200**	**$334,984**	**$26,334**	**5,882**

ELDERLY HOUSING

Hardy, Arkansas, a small crossroads town in Sharp County on the eastern edges of the Ozark Mountains, has enjoyed recent growth as a retirement community. But as the residents get older, their needs and lifestyles change; health problems may arise, or single-family homes and their maintenance demands give way to a need for the more structured and less demanding environment of apartment living.

The problem in the Hardy area was there were no facilities for these citizens that had now become frail or handicapped, along with being elderly.

In 1991, Tom Embach, president of Leisure Homes Corporation of Mountain Home, Arkansas, was contacted by a local housing group and a county judge to help solve the problem. Embach's company, which had been developing real estate in northern Arkansas for more that 23 years, did a market survey of the area and recognized the opportunity to use his firm's specialty, building multifamily housing for the elderly.

As a result, Pocahontas Federal Savings and Loan Association, Pocahontas, Arkansas, used an AHP direct subsidy of $260,000 to help build 24 units of housing for very-low-income elderly and handicapped residents in Hardy.

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The project consists of one-bedroom apartments and is a joint venture between the White River Regional Housing Authority, a local nonprofit housing organization and the project sponsor, and Leisure Homes. Additional funding for the $740,000 project came from Pocahontas Savings and Loan and the sale of Low-Income Housing Tax Credits.

Embach said that profitable development of homes for the elderly in Arkansas is not easy.

"It is tough to develop here ... construction costs are not that much less [than in the northeast], so it is a real tough challenge," Embach said.

Embach, whose firm has used the AHP six times since its creation in 1990, credited the AHP with helping his projects to be successful.

"It is just an excellent program. I like it because we can lock-in long-term financing, creating economic stability [for our projects]," Embach stated. "It gives you that extra edge because margins are so close."

HOMELESSNESS

Hundreds of miles north in the rural seacoast town of Wiscasset, Maine, the AHP provided funding for rental units for the near-homeless and single-parent households. In that project, Gardiner Savings Institution, Gardiner, Maine, used an AHP direct subsidy of $55,000 to help construct three triplexes for very-low income, near-homeless, and single-parent residents of Wiscasset.

The Ward Brooks Housing Project in Wiscasset is a $510,000 effort to develop nine rental housing units and six units of homeownership property. The rental property is owned and managed by the project's nonprofit sponsor, Coastal Enterprises, Inc. (CEI). In addition, the residents have access to many social services, including parenting skills training, job training, GED training, child care, and health and nutrition education.

The project is an outgrowth of CEI's participation in a Lilly Endowment demonstration program to develop partnerships with local churches to help rural areas meet the needs of low-income families, particularly single-parent households. For the Ward Brooks project, six local churches provided $50,000 from the Genesis Fund, a statewide endowment for churches and individuals to invest in housing and community development projects. Members of those congregations also volunteered their time and resources to support the project. Additional funding for the project came from the Lilly Endowment, the State's Office of Community Services, and the town of Wiscasset.

Letters of Credit Gain Popularity Within Bank System

Letters of credit have been a standard instrument in the banking community for decades, however it is only recently that letters of credit have been used in the Affordable Housing Program and Community Investment Programs.

A standby letter of credit (LOC), as used within the Federal Home Loan Bank System, is an obligation of an FHLBank to make payment to a third party if an FHLBank member defaults on a specified obligation to that third party (see "Guidelines," page 4).

The major advantage in using an LOC is that this competitively priced instrument can help reduce transaction costs. This is possible because the FHLBanks have a triple-A credit rating that also applies to the LOC. The LOC substitutes the creditworthiness of the FHLBank for that of the member. Thus, the triple-A rating means lower financing costs that can be passed on to members and ultimately to the owners or tenants of low-income housing.

PROGRAM EXAMPLES

LOCs can be used in unique and innovative ways. For example, both the FHLBanks of Chicago and San Francisco have used LOCs to assist in providing homes for very-low- to moderate-income households.

In Illinois, the Chicago FHLBank recently issued three LOCs totalling $13 million. One was a $3 million 18-month LOC to collateralize the Illinois State Treasurer's Office linked-deposit program to finance more than 30 mortgages for moderate-income households.

(Linked-deposit programs facilitate the investment of public funds in loans that benefit specified

(See LOCs, page 5)

Bank System-Approved Guidelines for LOC Use

While each FHLBank has the option to issue LOCs, all of the Banks are subject to letters-of-credit guidelines issued by the Federal Housing Finance Board (Housing Finance Board).

The guidelines cover five specific areas governing the use of LOCs. Those areas are purposes, limitations, nonmember mortgagees, conditions, and implementation.

PURPOSES

All FHLBanks may issue or confirm LOCs on behalf of member institutions to facilitate a number of business transactions, such as: the purchase of, or commitment to purchase, mortgage loans where the LOC functions as a performance bond; collateralization of public-unit deposits; collateralization of Internal Revenue Code Section 936 deposits; and interest-rate swaps and other transactions that encourage or assist the asset/liability management of member institutions,

Lastly, LOCs can be used in other transactions that promote home financing housing activity, or the financing of commercial and economic development activities that benefit low- and moderate-income families, or that are located in low- and moderate-income neighborhoods.

LIMITATIONS

Although LOCs can be used for a wide variety of purposes, the Housing Finance Board does impose certain limitations.

First FHLBank confirmations cannot be issued solely far the purpose of promoting a member's LOC program, or to increase a member's profitability from this fee-based service. Also, long-term LOCs (le., those with a maturity of 5 years or greater) may be issued only for housing finance purposes.

Second, these instruments may be issued on behalf of members that do not meet the Qualified Thrift Lender (QTL) test only for housing finance purposes.

NONMEMBER MORTGAGEES

FHLBanks may issue LOCs on behalf of nonmember mortgagees if they promote home financing housing activity, the financing of commercial and economic development activities that benefit low- and moderate-income families, or are located in low- and moderate-income neighborhoods.

CONDITIONS

The Housing Finance Board has set 11 conditions governing the issuance of LOCs and confirmations: the instrument must comply with the provisions of the Housing Finance Board's advances regulations; they must be accepted only in accordance with the FHLBank's credit policy; and an LOC must contain a specific expiration date or be for a definite term.

Further, an LOC's maturity cannot exceed 10 years, except for issues that support a member's peformance in interest-rate swap transactions; LOCs must be conditioned upon the account party meeting the FHLBank's credit criteria at the time of renewal; and an LOC must be fully collateralized at the time of issuance.

In addition, LOCs issued on behalf of members will be included in the computation of the member's advances/FHLBank capital stock ratio; they must be approved by the issuing FHLBank; disbursements should be linked directly to an account established at the FHLBank; and outstanding LOCs must be reflected on the books of the FHLBank as contingent habilities.

Lastly, LOCs issued on behalf of members must be included in the calculations of the 30 percent limit on Bank System advances to non-QTLs.

IMPLEMENTATION

The Housing Finance Board requires that each FHLBank develop written policies consistent with its guidelines, and submit to the Housing Finance Board a monthly report summarizing its LOC activity.

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groups in the depositor's State or community. Many States require that public deposits be collateralized. In some jurisdictions, the FHLBank's LOC is an acceptable substitute for the traditional collateral. In other cases, linked deposits are a program by which jurisdictions only deposit their funds in banks with good Community Reinvestment Act ratings.)

In the other two unrelated transactions, the FHLBank issued LOCs totalling $10 million to assist 306 units of very-low- to moderate-income households.

In California, the San Francisco FHLBank issued two LOCs totalling $24 million to support a mortgage bond issue by the City of Los Angeles. The bond proceeds will be used to finance the reconstruction, improvement, or acquisition and rehabilitation of 500-600 multifamily properties, many of which were damaged in the January 1994 Northridge earthquake. Two FHLBank of San Francisco members are participating in the effort.

LOCs also need not be just a single issue for a single project, as recently demonstrated by the FHLBank of Indianapolis. In that transaction, the Indianapolis Bank issued LOCs to eight member institutions to assist in creating permanent financing for a 160-unit apartment complex in Franklin, Indiana. The LOCs were used as credit enhancements, enabling the developer to refinance $5.6 million of outstanding tax-exempt economic development bonds issued by the City of Franklin. The bond proceeds provide the permanent financing for the project.

An example of the more typical use of an LOC was the rehabilitation of 108 units of housing for very-low- and low-income households in Palm Springs, California. In that project, Redlands Federal Bank, Redlands, California, used an AHP direct subsidy of $435,000 to assist in the acquisition and rehabilitation of Tahquitz Court, a low-income housing complex.

The apartments, located across the street from the Palm Springs City Hall, had 16 units with 3 or more bedrooms for larger families. A mortgage revenue bond and a deferred loan, both provided by the City of Palm Springs, contributed to this project. Additional credit enhancement for the bond issue was provided by a LOC from Redlands Federal. The LOC was backed by the FHLBank of San Francisco, enabling the bonds to obtain a triple-A rating and a lower interest rate.

MF and SF Housing Also Possible

Retraining, Daycare Centers Typify Rural, CIP Efforts

The FHLBanks serve as a primary source of low-cost funding for housing and community development through advances to their members. Under the Community Investment Program (CIP), the FHLBanks further reduce costs to members by providing advances priced at an FHLBank's cost of funds, plus a reasonable administrative mark-up. The CIP is important to local housing and community development efforts because it serves as a noncompetitive, ongoing source of below-market-rate debt financing.

The CIP is effective in situations where marginal cost savings can be a determinant of whether a loan can be made. But equally important, is that CIP makes credit accessible where it might not otherwise be available, particularly at long terms.

The CIP is tailored to the needs of community-oriented portfolio lenders. Portfolio lending is particularly important in the origination of long-term, fixed-rate loans, gap financing, or loans that do not meet secondary market standards due to atypical property or borrower characteristics.

Under the CIP, FHLBank members are required to use the funds for loans for low- and moderate-income housing (defined as households with incomes that do not exceed 115 percent of area median income), or for community and economic development activities to benefit low- and moderate-income households or in low- and moderate-income neighborhoods (where at least half the benefits must go to households at 80 percent or less of area median income). Financing a loan with CIP advances clearly identifies the loan as part of a member's community-oriented lending.

Community and Economic Development

Community development

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lending differs little in scope or risk from traditional lending by community banks. Loans for manufacturing plants, small shopping centers, offices for social service providers, and community facilities are types of traditional community lending activities.

Two examples highlight the variety of community economic development projects that are funded by CIP advances:

- Cayuga Savings Bank, Auburn, New York, obtained a CIP advance of $525,000 to provide construction and permanent financing for the Auburn Skills Training Facility, an adult learning facility and daycare center. The facility will be used for a variety of adult programs, vocational and career counseling, job placement services, literacy education, high school-equivalency programs, and the training of employees for local business. The building is located in a New York State designated Economic Development Zone. The project is expected to create **37** new jobs.

- Medway Savings Bank, Medway, Massachusetts, will use a CIP advance of $350,000 to finance the construction of a daycare center by the South Norfolk County Association for Retarded Citizens. The center will provide educational programs and other services for mentally retarded adults. Corporate and other private grants will cover the balance of the development cost.

Multifamily Lending

The long-term lending facilitated by CIP is a great benefit to multifamily housing. Without the CIP, an owner or sponsor may be able to obtain only shorter-term, adjustable-rate financing. By providing long-term fixed-rate financing, the CIP expands the number of lenders willing to make long-term mortgages on multifamily buildings. This results in more-stable and more-affordable rents. CIP financing has been used for "bridge loans" in a number of developments that use Low-Income Housing Tax Credits. Also, CIP advances can be structured to match the equity pay-in schedule on a tax-credit project.

Three different types of lending highlight the variety of CIP uses for multifamily housing:

- The redevelopment of downtown areas often includes the conversion or renovation of mixed-use structures for affordable multifamily housing. Because these buildings often have atypical architecture, and contain commercial space, they often are difficult to finance. Viking Community Bank, Seattle, Washington, used a CIP advance of $500,000 to finance the mortgage on the Wallingford Building in Seattle, a rehabilitated former middle school. The mixed-use property includes 8 units of affordable housing consisting of 2 studio and 6 one-bedroom apartments on the upper levels, and several small retail businesses on the lower level. The retail businesses are expected to create 24-30 jobs.

- CIP advances are used for a number of more traditional and some nontraditional forms of multifamily housing, some of which are combined with public housing programs. An example of this would be a CIP advance of $907,000 to the First Dakota National Bank, Yankton, South Dakota to finance the construction of a 24-unit apartment complex in Vermillion, South Dakota. The initial tenants will be eligible for rent subsidies under the South Dakota Housing Development Authority Home Rental Reduction Program. In the future, vacancies will be filled with tenants qualifying under HUD Section 8 regulations.

- People's National Bank, Belton, Texas, used a CIP advance of $1 million to finance the acquisition of a 144-unit garden apartment complex in Harker Heights. The Central Council of Governments purchased the property from the Resolution Trust Corporation.

Single-Family Housing

CIP lending by the FHLBanks has augmented the supply of mortgage credit for low-income households by enabling FHLBanks to make loans that they otherwise might not make. CIP-financed loans offer a number of benefits to both lenders and borrowers. For lenders, CIP advances allow the match-funding of low-income, single-family mortgages. The FHLBanks offer CIP advances with customized features that can match the maturity and pay-off characteristics of single-family mortgages. In addition, the discounted rate on CIP advances may induce banks and savings associations that do not participate in the secondary mortgage market to make and hold low-income mortgages.

For low-income households, CIP advances can allow a lender to make a long-term, fixed-rate loan; the certainty of

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(CIP, from page 6)

stable monthly payments may be critical for a low-income household.

Two examples highlight the uses of CIP for single-family projects:

- Three Rivers Bank and Trust, McKeesport, Pennsylvania, used a CIP advance of $1.5 million to fund its TRUE Residential Mortgage Program. The program will provide funds for 76 below-market-rate mortgages for low- and moderate-income families. In addition to the residential mortgages, the TRUE Program also provides checking accounts, consumer loans, and credit restoration services in a community that was devastated by the demise of the steel industry.
- First National Bank, Zanesville, Ohio, will use a CIP advance of $100,000 to provide permanent financing for approximately 36 participants in the Community Lending Dream Loan Program. The program will provide permanent, long-term, fixed-rate financing for low- and moderate-income households and will offer lower downpayments, flexible payments, and reduced closing costs. The program requires neither private mortgage insurance nor title insurance.

Rural** LISC **Created

FHLBanks Asked to Increase Funding to Local CDCs

The Local Initiatives Support Corporation (LISC) recently announced the creation of *Rural LISC,* a four-year, $101 million dollar, national effort to improve the performance of rural community development corporations (CDCs).

Rural LISC is an initiative to select 48 participating CDCs from around the country to receive from LISC training, education, information, and technical assistance, in addition to **$96** million in grants, loans, and other financial assistance to improve their performance and community exposure.

As part of their strategy, LISC representatives met with the Federal Home Loan Bank System's 12 community investment oficers to explain how increased community lending by Bank System members could improve the performance of rural CDCs. Similar meetings with FHLBank presidents are also planned.

LISC is asking Bank System members to provide **$60** million in Community Investment Program assistance for ***Rural LISC*** over the next **4** years. The assistance would consist of $10 million in **5-,** 15-, and 20-year advances for relending to CDCs; $30 million in advances for bridge financing to LISC's National Equity Fund; and $20 million in 15- to 20-year advances to fund Local Initiatives Managed Assets Corporation (LIMAC) loan purchases. LIMAC is an affiliate of LISC.

The group also is asking that Bank System members appoint a representative to the 15-member *Rural LISC* Advisory Committee, the body that will select the 48 participating CDCs and be charged with recommending to the LISC board and officers all *Rural LISC* investments.

Nancy Grandquist, community investment officer of the Des Moines FHLBank, gave the program high marks, saying the initiative was "very positive."

"It appears to be a well thought out initiative, and they have a good list of CDCs to apply for the financial assistance. I'd expect them to have very good results," Grandquist said.

Rural CDCs receive inadequate attention and resources compared to their urban counterparts, according to LISC, because in rural areas there are few corporate headquarters, financial institutions, and foundations, which are regular supporters of urban CDCs. Nationwide, LISC has identified 413 rural CDCs.

The *Rural* LISC strategy includes forming public and private sector partnerships that would increase the visibility, capacity, credibility, and resources of rural CDCs across the nation. Other entities solicited for participation in *Rural* LISC include CDC trade associations, housing advocacy groups, financial institutions, foundations, and government agencies.

John Berdes, LISC's program director for field strategies, said response to the *Rural LISC* initiative has been positive, and he is "absolutely confident" the initiative can meet its goals.

"Response has been very positive, but challenging...it is an uphill struggle but we are

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(LISC, from page 7)

gaining the resources [and] we're very encouraged and will implement the program," Berdes said.

With *Rural* LISC support, LISC anticipates the 48 CDCs selected for the program will develop 2,000 units of affordable housing and 250,000 square-feet of job-generating facilities. *Rural LISC* also will train dozens of additional rural CDCs.

The LISC is the nation's largest nonprofit supporter of community-based efforts to transform troubled urban neighborhoods. Since 1980, it has mobilized $1 billion in grants, low-cost loans, and project equity for affordable housing.

For more information on ***Rural** LISC,* or to join the *Rural LISC* network, contact Trey Fischer, Senior Vice President, Local Initiatives Support Corporation, Suite 909, 1825 K Street NW Washington D.C. 20006 at (202) 785-2908.

RESOURCES

"Manufactured Housing: A HUD USER Resource Guide," (40 pp., $4) offers housing professionals, policymakers, and interested consumers an introduction to research and descriptive information on one of today's most promising and least understood affordable housing options. For more information contact Michael Siewert, HUD USER, P.O. Box 6091, Rockville, MD, or call (301) 251-5724.

The "Directory of Information Resources in Housing and Urban Development," third edition, has been released by HUD USER. This $26 reference book presents useful facts on the information services of 145 public agencies, research institutions, trade and professional associations, advocacy groups, and clearinghouses. Also included are listings for 44 on-line data bases. For more information contact HUD USER, P.O. Box 6091, Rockville, MD 20850, or call 1-800-245-2691.

The National Low-Income Housing Coalition (NLIHC) has published "The 1994 Advocate's Resource Book." The book offers basic information for the housing advocate, including overviews of housing issues, descriptions of planning tools and programs (CHAS, HOME, CDBG, etc.), and information on the legislative process. For more information on this $5 book ($10 to nonmembers) contact the NLIHC, 12th Floor, 1012 14th Street NW, Washington, D.C. 20005, or call (202) 662-1530.

"Progress in Elderly Housing," describes current housing circumstances of older people and changes over the past decade using 1989 and 1990 American Housing Survey data. The book is free from the Consumer Team, Public Policy Institute, American Association of Retired Persons, 601 E Street, Washington, D.C. 20049, or by calling (202) 434-2277.

"Comprehensive Housing Affordability Strategy: A Citizen's Guide" ($9.50) provides a practical guide to influencing the new CHAS planning process. For more information contact the Center for Community Change, 1000 Wisconsin Avenue NW, Washington, D.C. 20007, or call (202) 342-0519.

"Investing in Community-Based Development: The Case for Utility Investment in Distressed Communities," published by The Enterprise Foundation, presents successful examples of utility company investment. The publication is free. For additional information contact The Enterprise Foundation, 10227 Wincopin Circle, Columbia MD 21044, or call (410) 964-1230.

"Where we Live: Housing and Household Characteristics in the Washington Metropolitan Region" is an 88-page report published by the Metropolitan Washington Council of Governments that includes key demographic and affordable housing data. To order, call (202) 962-3256 between 1-5 p.m. weekdays.

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