Building Blocks

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Seattle's "Rent-to-Own" Program

Finance Board Okays Fourth Pilot Program

On November 12, the Federal Housing Finance Board unanimously approved a proposal from the FHLBank of Seattle for a pilot program that would foster homeownership by facilitating the financing of "rent-to-own" mortgages.

The FHLBank of Seattle will 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.

"This pilot program is a new and innovative way for the FHLBank of Seattle to carry out its housing finance mission at minimal risk," said FHFB Chairman Bruce A. Morrison.

"It promotes lending for an underserved segment of the housing market, and enhances the cooperative nature of the FHLBank System by increasing the liquidity and marketability of mortgages held by its members," he added.

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 will 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, providing favorable pricing and paying a higher servicing fee than that paid by Ginnie Mae.

The Seattle FHLBank pilot program is designed to attract more rent-to-own programs, since the costs of these programs have generally discouraged lenders from offering them. In addition, the pilot enables Seattle FHLBank members 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.

"We have been encouraging the FHLBanks and their members to 'knock on the door' with creative programs that meet the FHLBank System's mission, and now four pilot programs have been approved," Morrison said. "They are all unique, but they have a common thread -- they illustrate how the FHLBank System can increase the availability of funding for housing finance and community investment, especially where that financing is not otherwise available."

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

(See **SEATTLE,** page 2)

Table of Contents

Board Approves FMP Changes That May Aid Small Bank. . . . . see page 2

Morrison Urges Lenders to "Knock on the Door" for Community Investment Projects . . . . see page 3

Policy Director Appointed. . . . . see page 5

New AHP Regs Now in Effect. . . . . see page 6

Formalized Procedures

Finance Board Approves Policy for Pilot Programs

The Federal Housing Finance Board approved on Nov. 12 procedures the board's staff will follow when receiving applications from the FHLBanks for pilot programs.

The formal procedures are necessary to ensure that each pilot program proposal is properly processed and measured against the same criteria, as well as shorten the time between submission and presentation to the Finance Board for consideration.

The new procedures streamline the submission and review process by providing the FHLBanks with detailed information on what is required for a pilot program proposal and the Finance Board staff with procedures to follow in processing and analyzing each proposal.

In summary, the process includes:

A. The Finance Board staff will analyze each pilot program proposal to ensure it contains all of the information required by the Pilot Proposal Submission Guidelines (see sidebar).

B. Once the pilot proposal is deemed complete, the Finance Board staff will analyze the proposal to determine if it meets the requirements of the Finance Board's Financial Management Policy (FMP).

C. If the proposal purports to meet the FMP requirements, details of the proposal will be published in the Federal Register, inviting public comment.

D. After the comment period closes, the Finance Board staff will analyze the proposal and public comments received to determine whether the requirements of the FMP are met. This will include an analysis to determine whether all risk factors were considered and addressed, a review of proposed policies, procedures, and a determination of the adequacy and number of FHLBank staff that will administer the pilot program.

E. The proposal, analysis, and staff recommendation will be presented to the Finance Board for consideration.

F. If the Finance Board adopts the proposal, the approval will be contingent upon the Office of Supervision determining that appropriate program policies, procedures, controls and reserves have been established by the FHLBank.

G. Following Finance Board consideration, notice of the board's action will be sent to the FHLBank.

A complete and detailed copy of the procedures policy and the guidelines are available by contacting Greg Goggans at (202) 408-2878. The procedures and guideline are also available at the Finance Board's website http://www.fhfb.gov. □

Pilot Proposal Guidelines

Board Resolution: A resolution from the FHLBank's board of directors approving the proposal and authorizing its submission to the Finance Board.

Description of Proposal: The proposal needs to contain a complete description and discussion of the proposal, including: overall goals and objectives, pilot size and basis for determination, pilot operations, profitability goals and timeline.

Compliance Authorization Criteria: The FHLBank must explain how its proposal meets the requirements of the Finance Board's Financial Management Policy

Pilot Documentation, Support and Reporting: The FHLBank must discuss anticipated program documentation, support, and reporting.

Measurement of Pilot Success: The FHLBank needs to describe the criteria it will use to measure the success of the program. □

(SEATTLE, from page 1)

household then assumes the mortgage, which is insured against default by the FHA.

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

Chairman Offers Perspective

Morrison to Lenders: "Knock on the Door," For Community Investment Projects

(The Federal Housing Finance Board has emphasized the need for innovative community investment financing activity within the FHLBank System. On November 5, Finance Board Chairman Bruce A. Morrison addressed the National Community Development Lenders' Conference at its annual convention and discussed the FHLBank System's future role in community development. Excerpts from that speech appear here.)

The Federal Home Loan Bank System may or may not he able to fit its capacity into the demands that you have for the work that you want to do. But if it's not fitting into those needs, it's not because of any legislative problem. There's a different problem, one in which I want the system to he a part of the solution, with you.

When I got this job I made one commitment, and that was that the Finance Board as a regulator would not stand in the way of innovative activities of our Federal Home Loan Banks that would enhance credit availability in this country, that we would facilitate that activity, and that we would never – whether at the member institutions, or at the Federal Home Loan Bank level, or in Washington – accept the answer to a new idea to he, "The Finance Board won't allow it."

It is our job to respond to demonstrated needs that can he met by our Federal Home Loan Banks, and find ways to facilitate those programs. We've made some progress in that regard, hut we have a long way to go, and it's important for you to understand our predicament. The Federal Housing Finance Board is a regulator. We have no checkbook, we don't make loans, we don't make grants. We regulate the people that make these decisions.

"Think about investing $150 billion worth of portfolio capacity in economic development and multifamily projects. It would be a very different world."

We're in a responsive mode. But we don't want to see opportunities that are out there in the communities not responded to. So my challenge to you is to he aggressive, whatever role you are in, with respect to this system. But I don't want you to think that because I list A, B and C, that there isn't a D, E and F that I haven't thought of.

Our view is not that we in Washington have some magic idea about the kinds of programs and activities that the Federal Home Loan Banks should develop, hut rather that you out in the communities as borrowers and lenders know what isn't getting done and what ought to he done, and how a program might he changed, how the funding might he structured so that things might work differently.

What I need from everyone who's working in the field is a commitment to "knock on the door". If you are a member of an institution, you should he challenging the Federal Home Loan Bank of which you are a member to he responsive. If you are not a member, you should ask the question of whether you could or should be. And if you are a community developer, you should he asking member institutions in your community for more flexibility. And when they say they don't think they have it, ask them whether they've asked the Federal Home Loan Bank about ways that they might innovate in order to respond to those needs.

Unless that happens – unless this is a demand-driven situation – we can think great thoughts and write great ideas in Washington, hut we can't make a single deal happen. We cannot order or cajole anyone to do a deal. Deals are done between borrowers and lenders, and that is the way the system works. And it is very important that people see this as part a bag of tools that they may use.

Right now, the Federal Home Loan Banks have about $150 billion of portfolio capacity based on their current capital, which is being used on arbitrage activities, investing in things that somebody else already

(See **SPEECH,** page **4)**

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(SPEECH, from page 3)

created, investing in MBS and short-term money market funds. There's no value added. Think about investing $150 billion worth of portfolio capacity in economic development and multifamily projects. It would be a very different world.

We also have had under consideration, and we intend to continue work on, expansion of the program that is now known as CIP, or the Community Investment Program. Actually, the Community Investment Program is the one mandated statutory economic development lending program. It has been thought of as the only program, but in fact the statute says that the existence of this mandated program is not to be taken to mean that other community investment cash advance programs cannot be created as well.

We want to encourage the Federal Home Loan Banks to develop other targeted products that will reach into the economic development sphere. The reason that this is important is that the ability of the Federal Home Loan Banks to support economic development is limited in a way that their work in housing is not limited; they must pass certain tests are far as targeting before they can fund community investment activities.

Therefore, we are working on, and will continue to work on and hope to create, a series of safe harbor rules so that the banks will be more innovative and more flexible and more aggressive in terms of creating alternatives to the program we have right now, which is CIP. What's wrong with CIP is that it has one set of targeting rules; a community has to have 80 percent of median income characteristics in order to qualify for CIP.

But there are many other instances of communities that don't fit into that particular category and can't get access to the kind of capital market support for this kind of product. This is especially true in rural areas where every community is at 100 percent ofmedian. So you never make this kind of loan in a rural area, for instance.

The Federal Home Loan Banks have been doing economic development lending, but not nearly enough. There have been some very good projects, but not nearly enough. These are hard things to do, and therefore they will take more pushing from the customers, and that is the kind of pushing that I am asking you to do.

We think it is uniquely appropriate for a cooperative like the Federal Home Loan Bank System, in addition to offering products, to be offering services that build the capacity of members to use their products to manage the risks that are coming in the door.

So that's the perspective that I have on what we can do – innovation on a different level, with more creativity and much more sparing and targeted use of public resources is the order of the day, and of the future. The old idea of the Federal Home Loan Bank System as a capital markets partner for local depository institutions is about to see its rebirth as a critical tool in how we do things today. Public/private partnerships are something we think we invented in the '90s, but we've had them, at least in the Federal Home Loan Bank System, since the '30s.

I would hope that you take an aggressive view about your half of the partnership, and push on the Federal Home Loan Banks to respond to the kinds of needs, the kinds of opportunities that you see in your community. The one thing that I can promise you is that if somebody at a Federal Home Loan Bank says to you, "We'd love to do that, but our regulator won't let us," you call me and I'll answer.

Of course we look at the risks. But the one thing we will not do is allow a hard and fast rule, rather than an analysis, to govern the decision on whether something is viable and legal and appropriate to do. So please, knock on the door and keep knocking on the door until you get a fair and decent and appropriate answer.

Thank you, very much. □

May Help Small Banks

Board Approves Financial Policy Changes

At its December 17 meeting, the Federal Housing Finance Board approved a change to its Financial Management Policy (FMP) that would allow FHLBanks to place federally insured deposits with any FHLBank System member.

The FMP amendment defines "federally insured deposit" as a deposit insured by the Federal Deposit Insurance Corporation (FDIC) or by the National Credit Union Share Insurance Fund.

The FMP change could enhance the FHLBanks' ability to provide liquidity to members, particularly smaller members. In addition to allowing FHLBanks to place deposits with any member institution, the change will create opportunities for several FHLBanks to invest in a single member. Institutions that could benefit from the changes include community development financial institutions, credit unions, or small community banks. □

FHLBank Legislation Debate Postponed Until 1998

Congress adjourned for the year before the House of Representatives could vote on H.R. 10, legislation that would significantly alter the nation's financial services landscape by addressing anti-affiliation restrictions between banks and other businesses. However, before adjournment S. 1423, a FHLBank System modernization bill that is very similar to the FHLBank provisions in House Banking Committee version of H.R. 10, was introduced in the Senate, but remained in committee.

There are two versions of H.R. 10: The House Banking Committee's version contains FHLBank System provisions, while the House Commerce Committee version does not. The legislative session ended before the differences between the two versions of H.R. 10 could be reconciled. The House leadership has vowed to continue its efforts to craft a bill for full House consideration.

The Banking Committee version of H.R. 10 contains the following key FHLBank provisions:

- FDIC-insured depository institutions with average total assets of $500 million or less would not be subject to the 10-percent-asset test for membership eligibility and would be able to use long-term advances for the purpose of funding small business, agriculture, rural development, or low-income community development lending.
- FHLBank membership would be voluntary for all institutions and stock-purchase requirements would be equalized.
- Several governance responsibilities would be devolved to the FHLBanks' boards of directors.
- The annual fixed-sum REFCORP payment would be converted to 20.75 percent of FHLBank System net earnings.
- The bill establishes a capital structure with minimum stock purchase requirements, classes of stock, and transferability of stock. □

Daycare Facilities Get Public/Private Sector Boost

The Federal Home Loan Bank System joined with five public/private organizations on October 23 to announce an unprecedented collaborative partnership creating a demonstration program to help build five child care facilities in rural communities across the country.

The goal of the demonstration program is to expand and improve Head Start and child care services, while creating jobs and making it possible for parents to work. The program will place some 350 children in new Head Start/child care facilities, creating and supporting nearly 100 jobs. Head Start is an agency of the Department of Health and Human Services (HHS).

"The Finance Board is proud to participate in this collaborative effort by the private and public sectors," said Bruce A. Morrison, chairman of the Federal Housing Finance Board that regulates the FHLBank System. "Helping to revitalize rural communities using the economic development funding resources of the Federal Home Loan Banks is one or our highest priorities."

The five community development corporation partners that will receive financial and technical assistance in building the facilities are in Arkansas, Kansas, Maryland, and two in Wisconsin.

In addition to the Finance Board, the other partners in the program are the Rural Housing Service of the Department of Agriculture, HHS, the Local Initiatives Support Corporation, the National Head Start Association, and Freddie Mac. □

Policy Director Appointed

Federal Housing Finance Board Chairman Bruce A. Morrison announced the appointment of James L. Bothwell as Director of the Office of Policy. Bothwell joins the Finance Board from the United States General Accounting Office (GAO), where he served as one of its top economists since 1982 and most recently as its chief economist.

Bothwell will advise the Finance Board on policy issues on the agency's oversight of the FHLBank System, including its Financial Management Policy (FMP). By identifying economic trends and business activities in the FHLBanks' markets, especially in areas of unmet needs, he will help the board shape its policies regarding the FHLBanks' investments, advances and pilot programs.

His appointment was effective December 8. □

FHLBanks Gained Greater Flexibility as New AHP Regs Took Effect January 1

Beginning January 1, 1998, sweeping revisions to the Federal Home Loan Bank System's Affordable Housing Program (AHP) regulations took effect, changing how the program is implemented and administered in the 12 FHLBank districts.

The new rules are the product of nearly a year of meetings, comments, and negotiations among FHLBank members, community groups, the FHLBanks, and their regulator, the Federal Housing Finance Board. The end product is a new regulation that increases the program's effectiveness. The new rules streamline procedures, clarify standards and reduce regulatory burden by transferring more operational authority to the FHLBanks.

The rules build upon the flexibility and local community interaction that have made the AHP a model in housing finance. Since its inception in 1990, the AHP has provided $468.5 million to help finance 120,252 housing units, with 68 percent of the units targeted for very low-income households.

Many of the changes in the rule codify practices developed by the FHLBanks in implementing the AHP over the past seven years. In addition, the new regulations increase efficiency in the administration of the AHP and enhance coordination of the AHP with other housing programs whose funds are used in conjunction with AHP subsidies.

Significant changes in the rule:

Transfer the authority to approve AHP applications from the Finance Board to the FHLBanks as part of the Finance Board's continuing effort to devolve management and governance authority to the FHLBanks.

Streamline and decentralize the competitive scoring process. This revises the existing regulatory framework governing scoring of AHP applications based on a new allocation of points among revised scoring categories and additional discretion provided to the FHLBanks, including the addition of a new FHLBank district scoring priority.

Reduce the overall monitoring burden by establishing clear, uniform procedures and standards and eliminating certain requirements. This change creates procedures and standards for monitoring approved AHP projects for compliance that take into account the costs of monitoring relative to the benefits and that reduce the overall monitoring burden.

Establish thresholds for the long-term retention of AHP-assisted housing projects. This change establishes minimum ***threshold*** retention periods of five years for AHP-assisted owner-occupied housing, and 15 years for

(See **REGS,** page 7)

Minneapolis Firm, Des Moines FHLBank Create Jobs, Housing Opportunities

The Minneapolis Community Development Agency (MCDA) in October closed on its first homeownership assistance grant under a unique program financed in part by the FHLBank of Des Moines.

In June 1996, the Federal Housing Finance Board approved a proposal by the Des Moines FHLBank to use advances to fund the MCDA's $5 million Capital Investment Fund (CIF) program.

The CIF is used to promote retention and expansion of local businesses that provide "living-wage" jobs for Minneapolis residents, and provides a recipient's employees with mortgage assistance grants of up to $2,000 to purchase a home in Minneapolis. The grants are for upfront costs, such as downpayment and closing costs, associated with purchasing a home, and are generated by a portion of the interest a company pays on a CIF loan.

Precision Tapes Inc., a Minneapolis-based video and audio production company, received a $550,000 CIF loan in February 1997 to expand its operations, thus making its employees eligible for $2,000 grants. The company has 85 employees. The first grant recipient used the funds to purchase a downtown condominium. The loan was closed several weeks ago.

The MCDA also has a second firm in line for CIF assistance. ASAP, Inc., a local printing company, is relocating its facilities and plans to add 20 to 35 new jobs over the next three years. The firm has an existing workforce of 165 employees. □

103 Local Institutions Receive $53 Million

The department of the Treasury announced in September that the Community Development Financial Institutions (CDFI) Fund awarded $38.3 million to 48 community organizations for financial and technical assistance under its CDFI Program. Additionally, the CDFl Fund awarded nearly $17 million in grants to 55 insured depository institutions under the Bank Enterprise Award (BEA) Program.

Awardees for the CDFI Program's $38.3 million in assistance were selected from a pool of 162 applicants that requested approximately $193 million. The assistance will help strengthen the 48 awardees to more effectively serve their communities and to expand into new areas.

Awards from the CDFl Program are used by CDFls to leverage federal dollars. Recipients must provide a one-to-one match with funds from non-federal sources for each dollar of assistance received. Recipients are held to performance standards that ensure the federal investment will result in significant community development. CDFl Program recipients include community development banks, multi-bank community development corporations, credit unions, loan funds, venture funds, and microenterprise loan funds.

The BEA Program provides incentives to insured depository institutions to increase their direct investment in CDFls, and to increase their financial services within the distressed communities they serve.

Twenty-four of the BEA awardees are FHLBank System members located in 10 of the 12 FHLBank districts. Of the $17 million awarded, $5.2 million was allocated to those FHLBank System members.

A complete list of CDFl Program and BEA Program awardees is available from the CDFl Fund by calling (202) 622-8042. □

Record Homeownership Rate Celebrated

The nation's homeownership rate reached 66 percent in the third quarter, the highest ever, surpassing the previous highest homeownership rate of 65.8 percent set in the third quarter of 1980.

The record homeownership rate also translates into a record number of families that own their own homes. According to HUD data released in October, 67.6 million families are now homeowners, up from the previous high of 67.1 million homeowners set earlier this year.

Minorities and women are among the groups that tallied the largest gains in homeownership, with 1.3 million more female-headed households buying homes since 1994. The homeownership rate of all minorities increased to 46 percent from 43.7 percent in 1994.

In announcing the new data, Vice President Al Gore said, "We have opened the doors of opportunity for millions of Americans, and they have walked through those doors." The Vice President noted that 5.8 million more Americans are homeowners than when President Clinton took office.

Finance Board Chairman Bruce A. Morrison said an important factor in the increased homeownership rates is the National Homeownership Strategy, created by the Clinton administration in 1995.

The National Homeownership Strategy is an initiative to increase the national homeownership rate to 67.5 percent and add 8 million additional homeowners by yearend 2000. The FHLBank System is one of 58 public/private partners in this effort. Collectively, the partners agreed to implement 100 action items listed in the strategy, with the 12 FHLBanks participating in 37 of them. □

(REGS, from page 6)

AHP-assisted rental housing. These minimum retention periods will result in a reduction in the number of years that projects must be monitored for AHP compliance.

Clarify and expand the range of remedial actions FHLBanks can take to recover unused or improperly used subsidies. In addition, the new regulation tailors the remedial action to be taken to the nature of the noncompliance and to the party committing the noncompliance.

A complete copy of the new AHP regulation is available by contacting Richard Tucker, Deputy Director, Compliance Assistance Division, Federal Housing Finance Board, 1777 F Street NW, Washington DC 20006, or by calling (202) 408-2848. □

RESOURCES

"Nonprofit/For-Profit Joint Ventures in Rural Affordable Housing," a new publication by the Housing Assistance Council, explores four examples of simple-to-complex partnering to create rental and ownership opportunities for low-income households. The 53-page report is available for $5 by contacting the HAC, Suite 606, 1025 Vermont Ave NW, Washington, D.C. 20005, or by calling (202) 842-8600.

◆

"Credit in Rural America," a new publication by the USDA's Economic Research Service, states that rural financial markets work reasonably well to provide credit for housing, agriculture, and development for those able to pay market rates. It notes, however, that some rural communities and some borrowers are not well serviced by existing financial markets. The report costs $15 and is available by writing to ERS-NASS, 341 Victory Drive, Herndon, VA 20170-5217, or by calling (800) 999-6779.

◆

"Economic Development Where It's Needed: Directing SBA 504 Lending to Lower Income Communities" is a June 1997 report from The Woodstock Institute that examines the SBA's 504 program. The report examines Chicago metro area and nationwide lending data for 1992-1996. The 25-page booklet is available for $12 for nonprofits and $25 to for-profits. For more information, contact The Woodstock Institute, Suite 550, 407 South Dearborn Ave., Chicago, IL 60605, or call (312) 427-8070.

◆

The Federal Home Loan Bank of Dallas has produced a "First-Time Homebuyer Resource Guide," an important source of information to navigate a prospective homebuyer through the maze of data available to homebuyers when he or she decides to purchase a home. A free copy of the publication is available by calling (800) 445-0323.

◆

"Building Sustainable Communities," a new publication from the National Association of Affordable Housing Lenders, examines 12 cases of best practices in community development lending in underserved large and small cities. The $15 publication can be ordered from the NAAHL by calling (202) 861-5770.

◆

"Bank-Ability: A practical guide to real estate financing for nonprofit developers," a new, $10 publication from the New School for Social Research's Community Development Research Center, clarifies the process of applying for private financing for real estate projects undertaken by nonprofit developers. To order, call (202) 229-5415.

◆

"Home, CDBG and Farmworker Housing Development," a New publication by the Housing Assistance Council, provides four case studies of projects that have successfully and creatively developed or rehabilitated farmworker housing using the CDBG and HOME programs. The $3.50 report is available from the HAC by calling (202) 842-8600.

◆

Two new information sheets on Native American housing are available from the Housing Assistance Council. "Native American Housing Conditions in Rural Areas" and "Barriers to the Development of Housing for Native Americans" can be ordered for $1 apiece from the HAC by calling (202) 842-8600.

◆

The Pathways from Poverty project for the Rural Sociological Society has published "Working Together for Change," a case study of its activities. The publication can be ordered by calling (608) 262-1150.

◆

The National Equity Funds special corporate report celebrates 10 years of NEF investment in affordable housing, and provides a year-by-year history of the organization's projects. Free copies can be ordered by calling (312) 360-0400.

◆

"Harvesting Hometown Jobs", published by the National Center for Small Communities, focuses on small town economic development, including strategic planning, recruiting, retaining and expanding businesses, innovative partnerships, and managing growth. The $24.95 publication is available by calling (202) 624-3556. ☐

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