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Announced June 18

## President Names J. Timothy O'Neill As Finance Board Chairman

On June 18, President George W. Bush designated J. Timothy O'Neill to serve as Chairman of the Federal Housing Finance Board. Mr. O'Neill, a Republican who has been a director on the Finance Board since June 1, 1995, replaces Allan I. Mendelowitz, who was appointed to the Board and named Chairman by President Clinton on December 28, 2000.

Prior to joining the Finance Board, Mr. O'Neill was a partner in the Washington law firm of O'Connor & Hannan, focusing on trade and international law and legislative and regulatory issues. He has represented both international and domestic clients before the Congress and the Executive Branch.

"I am honored and grateful for the opportunity to serve President Bush and this country as Chairman of the Federal Housing Finance Board, the regulator of the Federal Home Loan Banks," said Mr. O'Neill. "I am a strong believer in the value of the FHLBank System to America's housing finance industry and I intend to ensure that the FHLBanks continue to operate in a safe and sound manner as they carry out their historic housing and

community development mission."

Chairman O'Neill also listed his three priorities; first, to re-emphasize safety and soundness and the examination process at the FHLBanks; second, to support homeownership initiatives of President Bush and HUD Secretary Mel Martinez; and third, to forge closer ties between the Finance Board and Congress, the Treasury Department, fellow regulatory agencies, and other parties that deal with the Finance Board and the FHLBanks.

The chairman is especially interested in focusing the resources of the FHLBanks' affordable housing programs -- "the crown jewel of the FHLBank System" -- to support President Bush's initiatives to improve homeownership rates among low-income and minority families.

The president has proposed a \$200 million American Dream Downpayment Fund that will match downpayment assistance provided by  
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### *Strategic Plan, AHP Rules, FHLBank Director Meetings Receive Board Approval*

The Federal Housing Finance Board unanimously approved by notational vote on May 4 the following actions: 1) a revised five-year strategic plan; 2) a proposed rule amending its Affordable Housing Program regulations to improve the program's effectiveness and efficiency, and 3) an interim final rule on the minimum number of

board of directors meetings a Federal Home Loan Bank should hold annually.

The Finance Board approved a Five-Year Strategic Plan covering the period from 2000 through 2005 that revises the previous Five-Year Strategic Plan for 1998-2002. The new plan, which reflects changes made  
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depository institutions to low-income homebuyers. The president also has proposed a \$1.7 billion single-family tax credit program that will subsidize developers' costs of building or renovating homes in low-income areas.

"Each FHLBank is a private sector entity dedicated to improving homeownership opportunities in its community. Much of what the president wants to do can be accomplished using the FHLBanks' affordable housing programs and similar initiatives," Chairman O'Neill stated.

"We are ready, willing, and able to help turn the president's vision into reality," he said.

Mr. O'Neill was Director of Congressional Affairs at the Finance Board in 1991 and 1992. From 1987 to 1991, Mr. O'Neill served as Senior Legislative Manager for International Affairs at the U.S. Treasury Department and from 1986 to 1987, he was Deputy Director of the Office of Legislative Affairs at the U.S. Agency for

International Development. Prior to his Executive Branch experience, he held the position of Legislative Director for U.S. Senator John Heinz of Pennsylvania.

A 1976 magna cum laude graduate of Georgetown University's School of Foreign Service, Mr. O'Neill received his J.D. degree from Harvard Law School. A native of Indianapolis, Mr. O'Neill resides in Arlington, Virginia, with his wife, Virginia, and their three children.

Mr. Mendelowitz, a Democrat, will continue to serve on the Finance Board as a Director, along with Franz Leichter, also a Democrat, and Secretary of Housing and Urban Development Mel Martinez.

The Federal Housing Finance Board was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 as an independent agency in the executive branch with supervisory authority and oversight for the Federal Home Loan Bank System and its twelve District Banks. The Board of Directors is responsible for ensuring that the Federal

Home Loan Banks operate in a financially sound manner, fulfill their housing finance mission, and remain able to raise funds in the capital markets. **BB**

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necessary by the Gramm-Leach-Bliley Act, is based upon the Finance Board's three goals to ensure: 1) the safety and soundness of the FHLBanks; 2) that the FHLBanks carry out their Congressionally-defined housing finance mission, and 3) that the FHLBanks are adequately capitalized and have access to capital markets.

The Finance Board approved a proposed rule with a 30-day public comment period that aims to improve the operations and efficiency of the AHP. The most significant change would increase the maximum amount of money that can be set aside annually under an FHLBank's homeownership set-aside program to the seater of \$3 million or 25 percent of an FHLBank's annual AHP contribution. Currently, those limits are the greater of \$1.5 million or 15 percent of the FHLBank's annual AHP contribution.

The Finance Board, in response to requests by several FHLBanks, also approved an interim final rule that reduces the required minimum number of in-person board of directors meetings that an FHLBank must hold annually to six. Previously, the Finance Board required the FHLBanks' boards to hold a minimum of nine in-person meetings a year, or the number of meetings it averaged over the preceding three years.

The interim final rule eliminates the averaging requirement and sets the minimum number of board meetings a year at six after a survey determined that is within range of the number of board meetings holding companies and the other housing GSEs hold a year.

In addition, the Finance Board determined that the FHLBanks' boards would be able to maintain their level of management oversight by holding longer meetings and placing greater reliance on board committees for the conduct of board business. **BB**

## *www.fhfb.gov*

Items recently added to the Finance Board's web site:

- Board member J. Timothy O'Neill was named by President Bush to be the chairman of the Finance Board -- see Press and Reading Rooms/press releases;
- Discussion papers from the June 6 AHP Workshop -- see FHLBank Programs/housing programs;
- The FHLBanks of Pittsburgh and Seattle submit capital structure plans -- see Press and Reading Rooms/capital structure plans;
- Community development plans from 9 of the 12 FHLBanks are submitted -- see FHLBank Programs/economic development programs;
- Past issues on Building Blocks back to autumn, 1999 are now on-line -- see Press and Reading Rooms/publications;
- A new Five-Year Strategic Plan is released -- see About Us/strategic plan. **BB**

# AHP Operational Issues Under Review

On June 6 the Federal Housing Finance Board convened a workshop on the Affordable Housing Program in Washington, D.C. to discuss operational issues in the program and to identify ways to make the program even more efficient and effective. Approximately 15 people attended, representing many of the AHP stakeholders: FHLBank presidents, board members, community investment staff, and Affordable Housing Advisory Council members; project sponsors; member banks; national trade organizations; and community groups and their local affiliates.

The impetus for the workshop came from Finance Board Director Franz Leichter and Chairman J. Timothy O'Neill. In their opening remarks at the workshop both of them praised the program. Director Leichter described the AHP as "...one of America's truly best and prime affordable housing programs".

Chairman O'Neill said: "To date the FHLBank System has done a remarkable job of supporting affordable housing through its Affordable Housing Program and other FHLBank programs. However, more needs to be done."

Since 1990, when it first began, the AHP has provided approximately \$1.2 billion in funds for affordable rental and owner-occupied housing. The program began at a level of \$50 million in 1990 and in 2001, \$246 million is available. More than 7,000 projects have been assisted which translates into 273,796 units. Of these units, 89,737 are owner-occupied and 184,059 are rental. The homeownership set-aside programs have funded 14,074 of these units since 1995.

Workshop participants spent most of the day addressing four previously identified topics. Finance Board staff prepared discussion papers on each of these topics, which were provided to participants beforehand. Panel presentations were made to spur the discussion. A summary of the points raised follows.

## **Member Monitoring**

The existing AHP regulation divides monitoring obligations between project sponsors, members, and FHLBanks. Some have suggested that the monitoring rules have had a chilling effect on participation in the program. However, panelists did not agree that this was the case. There was a consensus among the participants that while no one likes to do monitoring, it is essential. The AHP is a competitive program and there must be some way to ensure that there is integrity in the selection process. Participants recommended that there be an integration of reporting among various funding sources, that sampling be used to ease the monitoring for rental projects, that documentation required of sponsors and members be reasonable and consistent, and that monitoring obligations be reduced if a member lending institution has funds in a project.

## **Revolving Loan Funds**

In the early years of the AHP, loan funds committed to affordable housing were allowed to re-lend repaid and recaptured AHP subsidies by funding multiple eligible projects over a period of time. This is no longer the case. Some participants praised the revolving loan concept and pointed out how much additional funding they typically leverage. One project sponsor suggested that agency annual audits could be used to ensure that funds were used for AHP-eligible purposes and projects. One member was not in favor of permitting AHP funds to revolve in the belief that the AHP cannot be all things to all people. A representative of a national community development organization pointed out that there were other sources for revolving loan funds. Another member urged the Finance Board to leave such decisions to each individual FHLBank with the input of their boards and advisory councils.

As a related issue, the group also discussed whether sponsors of

homeownership projects should be able to re-use any recaptured direct AHP subsidies to provide the same kind of assistance to subsequent eligible households.

One national non-Profit urged that sponsors using subsidized advances to fund home purchases be able to substitute eligible households when a borrower prepays rather than have to pay prepayment penalties.

## **Post-Completion Monitoring**

The current AHP regulation permits a project to be modified after it has been completed but only if it is in financial distress or at substantial risk of falling into distress and the project sponsor has made best efforts to avoid non-compliance. Many have suggested that this provision is much too onerous. Others say that it is needed to prevent applicants from "gaming" the system or making promises they know they will not be able to keep.

Workshop panelists provided examples of projects that were in need of modification due to changes in local market conditions. They indicated that the FHLBanks often need the ability to respond to such situations quickly, without having to apply to the Finance Board for a waiver. One FHLBank board member suggested that there needed to be a balance between flexibility and the need for a quick turnaround and the need to maintain the integrity of the program.

## **Out of District Projects**

As FHLBank member banks are purchased by other member banks in other FHLBank districts, the flow of AHP funds is often disrupted. Current regulations permits FHLBanks to deny funds to projects located outside their districts and to establish limits on the amount of AHP subsidy requested by a member per year or per single funding round.

One participant said that the Finance Board needs to take a leadership role on  
(See WORKSHOP, page 4)

# RESOURCES

The 11th edition of "Tax Credit for Low Income Housing: Opportunities for Developers, Non-Profits, Agencies, and Communities": is \$100 for the soft cover book or \$210 for the loose leaf folder from Simon Publishing, P.O. Box 229 Glen Echo Maryland, telephone 301-320-5771. Price includes shipping.

"Opening Doors to Rural Homeownership" is a free publication from the National Rural Housing Coalition's recent

rural homeownership symposium by calling 202-393-5229, or on the web at [www.nrheweb.org](http://www.nrheweb.org).

The affordable-housing implications of deinstitutionalization of disabled Americans are described in "Open Doors", a quarterly publication for the disability community. Copies and subscriptions are free from the Technical Assistance Collaborative at 617-742-5657 or [info@tacin.org](mailto:info@tacin.org), or on the web at

[www.tacin.org](http://www.tacin.org).

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A U.S. Department of Agriculture study finds that generally African Americans, Hispanics and Asians are represented among rural housing program beneficiaries, but American Indian and Alaskan Natives are underrepresented. The study, titled "Rural Housing Service Program Beneficiaries 1992 to 1999: A Report to Congress," is free from the National Rural Housing Conference by calling 202-720-8381.

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"How to Turn a Place Around: A Handbook for Creating Successful Public Places" is a new publication from the Project for Public Spaces. To order, call 212-620-5660.

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"Meeting the Housing Needs of Families" is a technical assistance resource guide from the Annie F. Casey Foundation. The guide present an overview of the critical issues and most promising approaches for meeting housing needs. To order, call Cheryl Clark at 410-223-2952, or email to [cherylc@aecf.org](mailto:cherylc@aecf.org).

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"A Nonprofit Capacity Self-Assessment Workbook for Rural Community-Based Organizations" was prepared by the Housing Assistance Council with support from the U.S. Department of Housing and Urban Development. The workbook is free at the HAC website, [www.ruralhome.org](http://www.ruralhome.org). **BB**

## WORKSHOP, from page 3)

his issue and require the FHLBanks to fund projects outside of the geographic boundaries of their districts. Another suggested that families in need of safe, warm, and clean housing do not see the boundary of any district line.

A builder and a sponsor both said that access to funds from any FHLBank district is key in rural areas where there is often a shortage of lenders to work with. One of the panelists said that larger members would determine a way to obtain most of the AHP funds if FHLBanks are not permitted to establish limits on members and are required to fund applications from anywhere. Several participants strongly urged that the decisions on both of these issues be made at the FHLBank level, as FHLBank requirements are easier to change than regulations.

### Other Issues

Participants raised a number of other AHP issues at the end of the day including: AHP targeting should be made more similar to other programs; members should not be permitted to utilize advances to fund predatory loans; feasibility guideline requirements should be reexamined; the Community Investment Program should be used to fund loans originated more than 90 days prior to receiving an advance; the scoring requirements should be revised to enable more homeownership projects to receive assistance; and the role of the Advisory Councils should be reviewed.

### Other Speakers

In his first public appearance as the Federal Housing Commissioner, Dr. John Weicher addressed the workshop participants at lunch. He focused on the issue of affordable housing from HUD's perspective and how the new administration plans to address the issue.

Raymond Christman, the president of the FHLBank of Atlanta and then-chair of the FHLBank Presidents Housing and Community Development Committee, reported that the FHLBanks and their presidents are fully committed to the AHP and to maximizing its effectiveness and impact. He spoke of the need for the FHLBank System to do a better job of "...sharing experiences, results, and best practices about what AHP and our other affordable housing and community development programs are producing."

### Next Steps

The Finance Board will be reviewing the transcript of the workshop and taking steps to determine which issues should be addressed either administratively or by amending the AHP regulation. In so doing the agency will attempt to do what a former colleague of one of the workshop panelists suggested: "Do your diligence well, make timely decisions, be reliable and predictable, but above all, make sure that your remedies are targeted precisely and clearly and are aimed to help, not hurt, the people who live in the housing you have created." **BB**

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**Chairman**  
J. Timothy O'Neill

**Editor/Writer**  
Dennis O. McGehee