

Federal Home Loan Bank of Atlanta

Annual Community Lending Plan

For 2006

Adopted December, 2005

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Pursuant to Section 944.6 of the regulations for Community Investment Cash Advance (CICA) programs, the Bank must submit a Community Lending Plan no later than January 31 of each year. This is the Bank's Plan for 2006, which was developed by staff in close consultation and collaboration with the Bank's Advisory Council during the second half of 2005 and adopted by the Bank's Board of Directors on December 8, 2005.

Background

In 1999 the Bank conducted an assessment of the community lending needs and opportunities in its district. That assessment highlighted the promise in lower-income communities of community-based development that is linked to financial markets. It recognized the important role that financial institutions play in community economic development. It noted that the organizing function within communities must be performed by organizations other than financial institutions. These other organizations include community development corporations (CDCs), community development financial institutions (CDFIs), cooperatives, and local quasi-governmental development authorities.

That assessment concluded that a variety of elements are needed for economic development to occur: visionary leadership, capable development organizations, funds for planning and organizational support, and dependable sources of long-term, below-market-rate debt financing. The Bank recognized that some of these requirements, such as organizational support and comprehensive planning, are best addressed by other types of organizations.

Recognizing the inherent limitation of its role and mission in implementing community development, the Bank adopted programmatic initiatives that would leverage its support by connecting with other partners who could provide resources needed for community economic development that the Bank does not provide.

Beginning with a \$1 million commitment in 1999, the Bank has provided a total of \$25.5 million in subsidies to support CICA programs and initiatives through 2005.

District Needs Analysis

The Bank continuously assesses conditions and opportunities affecting community lending within the Bank's district. This assessment occurs partially through outreach by Bank staff to members and potential end users of CICA products and services and through on-going input from the Bank's Advisory Council. In the preparation of the current plan, in addition to input gained from these avenues, Bank staff and Advisory Council members convened conference calls with community development leaders from across the district, to gain insights about community economic development (CED) needs and opportunities in the Bank's district. Organizations participating in these interviews included:

- University Center for Economic Development - University of Alabama

- Alabama Power Company
- Alabama Gas Company
- Alabama Cooperative Extension Center at Auburn University
- Tennessee Valley Authority
- Regions Bank
- Economic Development Center, Clark Atlanta University
- Economic Development Association, Georgia Institute of Technology
- Non-Profit Housing Consultant (Charles Burton)
- Appalachian Community Enterprises, Inc.
- Georgia State Trade Association of Nonprofit Developers
- Southwest Georgia Housing Development Corporation
- Atlanta Mutual Housing Association
- North Carolina Community Development Initiative
- MDC, Inc.
- NC Rural Economic Development Center
- NC Housing Finance Agency,
- Rocky Mount/Edgecombe CDC
- SC Association of Community Development Corporations
- Carolina First Bank
- Eau Claire Development Corporation
- Fannie Mae South Carolina Partnership Office
- SC Department of Commerce
- Virginia First Cities (Richmond, VA)
- People Incorporated of Southwest Virginia

These interviews revealed a number of needs and potential opportunities. Although the Bank cannot respond to all of these, the interviews helped shape the strategies and goals set forth later in this plan. Listed below is a summary of comments from the interviews:

- The Bank should consider supporting a public-private partnership led by the NC Rural Economic Development Center to promote entrepreneurship in persistently high poverty regions of North Carolina. The partnership has a \$2 million grant from the Kellogg Foundation.
- While a few local financial institutions are aggressive in community lending, these institutions generally do not develop projects unless somebody comes to them. Leadership comes most often from nonprofits.
- Consolidation and mergers of financial institutions have made it more difficult for local entities to assume leadership in community economic development.
- More planning and development assets and resources are needed, especially in rural areas.
- More reliable capacity building assistance is needed.

- A better understanding of what capacity building means is needed. Conferences and think-tanks should be convened to communicate the effects of capacity building on community economic development.
- Community economic development is more difficult to do because the various sectors (federal, state and local governments, financial institutions and foundations) are all going their separate ways. A common vision of what the CED process is and who can play what role is needed. Convening the players to get greater collaboration would be helpful.
- There is a need for equity funds to help make nonprofit deals work.
- A single annual funding cycle (as used in the Bank's traditional EDGE program, for example), does not provide the optimal flexibility needed to arrange project funding. Confidence in funding sources help deals in rural areas to come together.
- Community financial institutions need greater expertise and community lending capacity. The Bank's community development workshops have helped, but there is a need to learn more about the Bank's programs.
- Any discussion (today) of affordable housing and economic development must take into consideration the redevelopment of Hurricane Katrina affected areas.

In 2005, at the recommendation of the Bank's Advisory Council, the Bank also initiated a process to modify, streamline and improve its Predevelopment Fund policies and procedures. This effort included surveys emailed to more than 900 sponsors who have used the Bank's programs, to determine what works and what can be improved. Staff members also interviewed twenty other organizations offering predevelopment funds, to identify "best practices" and potential areas where the Bank's program could be improved. In 2006, staff will work to incorporate changes into the program in order to improve service delivery and encourage greater participation by nonprofit sponsors and member financial institutions.

The Bank's Voluntary CICA Programs and Initiatives

In looking toward 2006, the Bank looked back over the history of the Bank's voluntary implementation of CICA initiatives to better understand what has worked, where the needs appear greatest, where gaps exist in the delivery system, where opportunities exist for strategic progress, and what big challenges confront community development.

This plan helps identify and define ways to meet the credit needs of the Bank's district. The Bank's ability to meet credit needs is linked to the capacity of the system serving those needs. Member institutions and local development organizations are two key elements of that system. The initiatives and strategies in this plan address, in one way or another, the capacity of these two sectors.

Based on our initial assessment in 1999, and the ongoing assessments referenced above, the Bank will offer the following voluntary CICA programs in 2006: the Economic

Development Program (EDP), The Economic Development and Growth Enhancement (EDGE) program, the EDGE Opportunity Fund, and the Predevelopment Fund. The Bank discontinued funding the New Markets Fund in 2005.

The Bank's 2006 CICA programs are described below.

Economic Development Program (EDP)

The EDP advance is provided to members to support commercial and economic development activity that benefits low- and moderate-income communities.

These advances are priced at the Bank's cost of funds plus administrative costs. Loans supported by these advances must be closed three months prior to the date of the EDP advance and/or within six months following the date of the EDP advance.

The member provides one-time documentation of the loans supported by the advance six months after disbursement of the advance.

EDP funds must be used by the member to finance activities that meet one of the following criteria:

- Small business loans (as defined by the Small Business Administration)
- Loans in targeted geographic areas (census tract with a median income at or below the targeted income level*; designated low- or moderate-income community; Champion Community; Enterprise Community; Empowerment Zone; Native American Indian area; community impacted by NAFTA; an area eligible for federal Brownfield Tax Credits; federal disaster area; or an area impacted by a military base closing)
- Loans to businesses that will create or retain jobs for low- or moderate-income individuals (51% with salaries below the targeted income level*)
- Loans to entities that provide services to low- or moderate-income families (51% of the beneficiaries will have incomes below the targeted income level*)

EDP funds may be used to:

- Directly fund loans
- Purchase eligible loans
- Purchase participations in or provide financing to loan consortia that make eligible loans
- Make loans to entities that make eligible loans

* Maximum targeted income level is 115% of the area median income for rural areas, and 100% of the area median income for urban areas.

EDGE (Economic Development and Growth Enhancement)

EDGE is a voluntary, below-market advance program developed to encourage and support members' efforts in community economic development. The Bank provides an annual pool of funds to subsidize the rates on advances to members for community economic development projects that meet certain eligibility requirements. Members, in turn, make subsidized-rate loans to project borrowers.

EDGE funding is offered once each year. Member financial institutions must submit EDGE applications by the application deadline date of July 1 (or the first business day thereafter if July 1 falls on a weekend).

Only certain activities are eligible for an EDGE advance. These are grouped in four broad categories: Neighborhood Enrichment, Businesses and Employment, Commercial and Retail, and Infrastructure. Eligible activities include:

- Child-care center
- Community center
- Health-care facility
- Recreational facility
- Business creating permanent jobs at living wages with basic benefits
- Micro-loan fund (micro-loan = \$35,000 or less)
- Job-training facility
- Small business incubator
- Neighborhood commercial revitalization activity (including festive farmers markets, cultural-based activities, etc.)
- Grocery store
- Shopping center
- Projects supported by EDGE funding must
- Provide a primary benefit to individuals/neighborhoods based on at least one of the following:
 - **Jobs** – at least 51% of the jobs created or retained by the project will have starting salaries at or below 80% of the area median income; or
 - **Services** - at least 51% of the families who benefit from or are provided services by the project will have incomes at or below 80% of the area median income; or
 - **Location** - the project will be located in a census tract where the median income is at or below 80% of the area median income.
- Be located in the Bank's district.
- Demonstrate the need for a subsidized-rate loan.
- Use the EDGE funding within 18 months of approval.
- Use the EDGE funding for permanent financing with a loan term of 24 months or longer.

- Reflect the EDGE discount to the member in the interest rate to the project borrower.

The maximum subsidy the Bank will use to reduce the EDGE loan rate is \$700,000 per project. EDGE funding cannot be used for refinancing or to fund loans closed prior to the EDGE approval date. EDGE funding cannot be used to fund working capital or operational expenses.

Following project approval, members and project borrowers are required to sign an EDGE Project Agreement and submit Semiannual Progress Reports until the EDGE loan is closed. For three years following the funding date, the member and borrower must provide an EDGE Project Annual Status Report.

EDGE Opportunity Fund

The EDGE Opportunity Fund (EOF) allows the Bank, at its discretion, to fund projects outside the normal annual EDGE funding round. The EOF provides the Bank with flexibility to fund emerging, unique, and promising opportunities that require special packaging and partnering to be viable. Applications for the EDGE Opportunity Fund must be accompanied by a written rationale for the necessity for out-of-round funding. Applications should be discussed with Bank staff prior to submission and must be submitted at least two months in advance of the date on which the Board of Directors will be asked to consider the request.

Predevelopment Fund

The Predevelopment Fund is a revolving fund voluntarily established by the Bank to allow members to fund certain predevelopment expenses associated with affordable housing and community economic development projects being developed in the Bank's district by nonprofit organizations. Funding is provided in the form of a recoverable grant. Members may submit applications at any time, so long as there are unallocated funds available.

Working with member financial institutions, nonprofit project sponsors may request a predevelopment fund recoverable grant totaling up to 75% of eligible predevelopment expenses (not to exceed \$100,000 total) to assist with activities such as site control, property carrying costs, architectural and engineering surveys, boundary and title work, and other activities critical to the predevelopment process. Upon receiving construction or permanent financing, the nonprofit project sponsor repays the Predevelopment Fund recoverable grant.

The following policies and rules govern the Predevelopment Fund:

- The project sponsor must be a nonprofit organization and able to demonstrate strong financial and organizational management.
- A sponsor may have only one project funded by a recoverable grant at any given time.

- The maximum grant amount is \$100,000, not to exceed 75% of the total eligible predevelopment expenses.
- The nonprofit sponsor must submit quarterly progress reports regarding securing other proposed financing along with updated project financials.
- Grant funds shall be recovered from construction and/or permanent financing.
- All disbursements of the grant must be requested within 18 months of approval with the initial draw requested within 12 months of approval.
- During the term of the grant the nonprofit sponsor must provide financial statements for the organization on a semiannual basis.
- A member receiving a grant may charge a commitment fee to the project sponsor up to a maximum of 2% on the amount awarded through the Recoverable Grant.
- Projects supported by the grant must be located within FHLBank Atlanta's district.
- Applying member must provide a letter of intent to provide construction and/or permanent financing or make an equity investment in the project, contingent upon receipt of a Predevelopment Fund grant and provide a statement of financial review of the proposed project and project sponsor.
- Primary benefit of the grant must be to individuals or neighborhoods with incomes at or below 80% of the area median income, based on at least one of the following:
 - **Homeownership** - At least 51% of the families or individuals purchasing owner-occupied homes will have incomes at or below 80% of the area median income, OR
 - **Rental Housing** - at least 20% of the units will be for households with incomes at or below 50% of the area median income; or 40% of the units will be for households with incomes at or below 60% of the area median income (includes special-purpose housing such as single-room-occupancy units for the homeless, transitional housing, supportive housing and group homes), OR
 - **Jobs** - at least 51% of the permanent full- and part-time jobs, computed on a full-time equivalent basis, created by an economic development project, other than construction jobs, will have starting salaries at or below 80% of the area median income, OR
 - **Services** - at least 51% of the families who benefit from (other than through employment or housing) or are provided services by the project will have incomes at or below 80% of the area median income, OR
 - **Location** - the economic development project will be located in a census tract where the median income is at or below 80% of the area median income.

- Applicant organization must have successfully completed two or more real estate development projects within the last five years.
- Applicant organization must provide audited financial statements for the last three fiscal years prior to the grant application. During the term of the grant, the grantee shall provide annual audited financial statements for the organization to the Bank.

Bank Policies for CICA Targeted Beneficiaries

For individual beneficiaries, the Bank uses the family median income of the area, as published annually by HUD.

The Bank uses the most recent census tract median income data available on the Federal Financial Institutions Examination Council website, www.ffiec.gov, to determine if a project is located in a neighborhood at or below the targeted income level. Neighborhood eligibility for mobile home parks under CIP is determined in the same manner.

For qualifying small business loans, the Bank excludes businesses that are excluded by the Small Business Administration under 13 CFR Part 120.110 or any successor provisions.

2006 Quantitative Performance Goals:

The Bank's overarching community lending goal is to increase member use of community lending programs in a greater geographic diversity. This translates into the following three quantitative goals for 2006:

- Conduct six community lending workshops around the district to assist community financial institutions with using CIS products and services with conventional loans and other subsidies.
- Conduct a community development strategy workshop module at the Bank's Annual Member Conference, which attracts approximately 120 member community financial institutions each year.
- Develop and offer a community development Webinar series on AHP and EDGE, marketed to members and organizations typically involved in the sponsorship and delivery of affordable housing and community economic development activity.

In addition to these quantitative goals, the Bank will explore a variety of other initiatives to support affordable housing and community economic development in its district in 2006. Activities currently being explored include:

- Apply green building principles and techniques as threshold requirements for funding under some of the Bank's community lending programs.

- Establish an award program to recognize excellent applications of green building principles and building techniques in AHP and EDGE projects.
- Assist individual community financial institutions in assessing community lending opportunities within their market areas based on a case study the Bank conducted with First Cherokee State Bank (of Georgia) in 2005.
- Use special offerings to promote member use of the EDP and CIP as financial tools to support community economic development within their markets.